Cellular Biomedicine Group, Inc.
Form 10-Q
November 19, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-36498

CELLULAR BIOMEDICINE GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	86-1032927
State of Incorporation	IRS Employer Identification No.

530 University Avenue, #17
Palo Alto, California 94301
(Address of principal executive offices)

(650) 566-5064
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period than the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer," and "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	o

Non-accelerated filer o Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of November 10, 2014, there were 9,946,022 shares of common stock, par value $.001 per share issued and outstanding.

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CELLULAR BIOMEDICINE GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$9,815,962	$7,175,215
Accounts receivable	175,093	10,581
Other receivable	163,651	78,521
Inventory	347,796	119,119
Prepaid expenses	510,679	56,911
Other current assets	111,882	134,661
Total current assets	11,125,063	7,575,008
Investments	9,218,722	5,105,891
Property, plant and equipment, net	1,295,208	1,014,805
Goodwill	7,678,789	3,299,566
Intangibles, net	11,715,281	601,456
Long-term prepaid expenses and other assets	541,109	-
Total assets (1)	$41,574,172	$17,596,726
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	$224,412	$213,891
Accrued expenses	1,862,977	503,717
Advances payable to related party	34,531	67,999
Other current liabilities	2,773,303	1,416,046
Total current liabilities	4,895,223	2,201,653
Other non-current liabilities	422,592	-
Total liabilities (1)	5,317,815	2,201,653
Stockholders' equity:		
Preferred stock, par value $.001, 50,000,000 shares authorized; none issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	-	-
Common stock, par value $.001, 300,000,000 shares authorized; 9,935,609 and 7,382,797 issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	9,936	7,383
Additional paid in capital	66,157,177	37,861,593
Accumulated deficit	(32,360,053)	(22,415,979)
Accumulated other comprehensive income (loss)	2,449,297	(57,924)
Total stockholders' equity	36,256,357	15,395,073

Total liabilities and stockholders' equity	$41,574,172	$17,596,726

(1) The Company's consolidated assets as of September 30, 2014 and December 31, 2013 included $3,679,771 and $1,031,350, respectively, of assets of variable interest entities, or VIEs, that can only be used to settle obligations of the VIEs. Each of the following amounts represent the balances as of September 30, 2014 and December 31, 2013, respectively. These assets include cash and cash equivalents of $1,572,213 and $9,100; accounts receivable of $151,093 and -0-; other receivables of $144,554 and $50,383; inventory of $197,692 and $26,526; prepaid expenses of $326,769 and $33,015; other current assets of $110,518 and $84,661; property, plant and equipment, net, of $1,048,394 and $772,872; and intangibles of $45,484 and $54,793; long-term prepaid expenses of $83,054 and -0-. The Company's consolidated liabilities as of September 30, 2014 and December 31, 2013 included $2,643,648 and $387,703, respectively, of liabilities of the VIEs whose creditors have no recourse to the Company. These liabilities include accounts payable of $72,157 and $24,868; other current liabilities of $1,988,562 and $268,301; payroll accrual of $160,337 and $74,384; tax payable of $-0- and $20,150 and other non current liabilities of $422,592 and $-0-. See further description in Note 6, Variable Interest Entity.

The accompanying notes are an integral part of these condensed consolidated financial statements.

CELLULAR BIOMEDICINE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Net sales and revenue:				
Biomedical	$-	$95,365	$179,120	$95,365
Total sales and revenue	-	95,365	179,120	95,365
Operating expenses:				
Cost of sales	-	158,280	92,553	158,280
General and administrative	2,021,382	1,398,809	5,123,210	7,157,211
Selling and marketing	21,311	8,080	86,806	60,310
Research and development	737,754	196,524	1,878,731	1,316,305
Total operating expenses	2,780,447	1,761,693	7,181,300	8,692,106
Operating loss	(2,780,447)	(1,666,328)	(7,002,180)	(8,596,741)
Other income (expense):				
Interest income	698	207	1,263	1,079
Other income (expense)	(260)	(16,829)	94,357	(289)
Total other income (expense)	438	(16,622)	95,620	790
Loss from continuing operations before taxes	(2,780,009)	(1,682,950)	(6,906,560)	(8,595,951)
Income tax provision	-	-	-	-
Loss from continuing operations	(2,780,009)	(1,682,950)	(6,906,560)	(8,595,951)
Income (loss) from discontinued Consulting segment	(43,271)	2,646,337	(3,037,514)	1,638,777
Income tax provision	-	(386,494)	-	(386,494)
Income (loss) on discontinued operations	(43,271)	2,259,843	(3,037,514)	1,252,283
Net income (loss)	$(2,823,280)	$576,893	$(9,944,074)	$(7,343,668)
Other comprehensive income (loss):				
Cumulative translation adjustment	(1,838)	24,269	(8,673)	56,228
Unrecognized gain (loss) on investments	(1,005,455)	(210,420)	2,515,894	(944,993)
Comprehensive income (loss)	$(3,830,573)	$390,742	$(7,436,853)	$(8,232,433)
Earnings (loss) per share for continuing operations:				
Basic	$(0.30)	$(0.27)	$(0.85)	$(1.56)
Diluted	$(0.30)	$(0.27)	$(0.85)	$(1.56)
Earnings (loss) per share discontinued operations:				

Basic	$-	$0.37	$(0.37)	$0.23
Diluted	$-	$0.36	$(0.37)	$0.23
Earnings (loss) per share net loss:				
Basic	$(0.31)	$0.09	$(1.22)	$(1.33)
Diluted	$(0.31)	$0.09	$(1.22)	$(1.33)
Weighted average common shares outstanding:				
Basic	9,131,576	6,155,203	8,155,213	5,519,634
Diluted	9,131,576	6,229,825	8,155,213	5,519,634

The accompanying notes are an integral part of these condensed consolidated financial statements.

CELLULAR BIOMEDICINE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Nine Months Ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(9,944,074)	$(7,343,668)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	660,836	643,444
Loss on disposal of intangible assets	12,313	-
Stock based compensation expense	1,151,404	2,904,047
Amortization of deferred stock compensation	85,671	
Impairment of goodwill	3,299,566	-
Third party services received in exchange for disposition of investment stock	-	83,334
Loss recognized in excess of cash received on disposition of investment stock	5,913	98,240
Value of stock received for services	(1,610,000)	(3,000,000)
Deferred tax	-	(76,544)
Changes in operating assets and liabilities:		
Accounts receivables	(13,419)	20,683
Investments	7,150	-
Other receivables	(53,332)	(21,045)
Inventory	(53,857)	(2,738)
Prepaid expenses and other assets	(439,437)	(25,612)
Other current assets	22,779	(76,810)
Long-term prepaid expenses and other assets	(458,058)	(26,858)
Accounts payables	(36,988)	(16,013)
Other current liabilities	(1,135,151)	(264,635)
Taxes payable	-	449,832
Accrued expenses	371,578	(378,949)
Deferred revenue	-	(92,985)
Net cash used in operating activities	(8,127,106)	(7,126,277)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of business, net of cash acquired	(190,698)	2,568,995
Purchases of intangibles	(1,953)	(5,801)
Purchases of assets	(129,096)	(139,900)
Net cash (used in) provided by investing activities	(321,747)	2,423,294
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuance of common stock	11,121,956	4,005,071
Repayment of advances from affiliate	(33,468)	(1,250)
Advances from affiliate	-	(525)
Net cash provided by (used in) financing activities	11,088,488	4,003,296

EFFECT OF EXCHANGE RATE CHANGES ON CASH	1,112	19,923
INCREASE (DECREASE) IN CASH	2,640,747	(679,764)
CASH, BEGINNING OF PERIOD	7,175,215	4,144,896
CASH, END OF PERIOD	$9,815,962	$3,465,132
SUPPLEMENTAL CASH FLOW INFORMATION		
Non cash financing and investing activities:		
Issuance of company stock for acquisition of patent	$1,442,850	$-
Issuance of company stock for accrued liabilities and advances	$-	$149,475
Issuance of company stock for acquisition of business	$14,496,256	$-

The accompanying notes are an integral part of these condensed consolidated financial statements.

CELLULAR BIOMEDICINE GROUP, INC.
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF BUSINESS

As used in this quarterly report, "we", "us", "our", "CBMG", "Company" or "our company" refers to Cellular Biomedicine Group, Inc. and, unless the context otherwise requires, all of its subsidiaries.

Overview

Cellular Biomedicine Group, Inc. is a biomedicine company, principally engaged in the development of new treatments for cancerous and degenerative diseases utilizing proprietary cell-based technologies. Our technology includes two major cell platforms: (i) Immune Cell therapy for treatment of a broad range of cancers, (ii) haMPC (human adipose-derived mesenchymal progenitor cells) for treatment of joint and autoimmune diseases, with primary research facilities in China, while meeting dual standards.

Corporate History

Cellular Biomedicine Group, Inc., (formerly known as EastBridge Investment Group Corporation) was originally incorporated in the State of Arizona on June 25, 2001 under the name ATC Technology Corporation. ATC Technology Corporation changed its corporate name to EastBridge Investment Group Corporation in September 2005 and changed its business focus to providing investment related services in Asia, with a strong focus on high GDP growth countries, such as China. The Company provides consulting services necessary for small to medium-sized companies to obtain capital to grow their businesses. The Company assists its clients in locating investment banking, financial advisory and other financial services necessary to become public companies in the United States or find joint venture partners or raise capital to expand their businesses.

On November 13, 2012, EastBridge Investment Group Corporation, an Arizona corporation (“EastBridge”), CBMG Acquisition Limited, a British Virgin Islands company and the Company’s wholly-owned subsidiary (“Merger Sub”) and Cellular Biomedicine Group Ltd. (“CBMG BVI”), a British Virgin Islands company, entered into a Merger Agreement, pursuant to which CBMG BVI was the surviving entity in a merger with Merger Sub whereby CBMG BVI became a wholly-owned subsidiary of the Company (the “Merger”). The Merger was consummated on February 6, 2013 (the “Closing Date”). Upon consummation of the Merger, CBMG BVI shareholders were issued 3,638,941 shares of common stock, par value $0.001 per share, of the Company (the “Company Common Stock”) constituting approximately 70% of the outstanding stock of the Company on a fully-diluted basis and the then current Company shareholders retained approximately 30% of the Company on a fully-diluted basis. Specifically, each of CBMG BVI’s ordinary shares (“CBMG BVI Ordinary Shares”) were converted into the right to receive 0.020019 shares of Company Common Stock.

Also in connection with the Merger, the Company created a new Delaware subsidiary named EastBridge Investment Corp. (“EastBridge Sub”). Pursuant to a Contribution Agreement by and between the Company and EastBridge Sub dated February 5, 2013, the Company contributed all of its then current assets and liabilities to EastBridge Sub which continued the business and operations of the Company at the subsidiary level.

As a result of the Merger, CBMG BVI and EastBridge Sub became the two direct subsidiaries of the Company.

In connection with the Merger, effective March 5, 2013, the Company (formerly named "EastBridge Investment Group Corporation") changed its name to "Cellular Biomedicine Group, Inc." In addition in March 2013, the Company changed its corporate headquarters to 530 University Avenue in Palo Alto, California.

From February 6, 2013 to June 23, 2014, we operated the Company in two separate reportable segments: (i) Biomedicine Cell Therapy ("Biomedicine"); and (ii) Financial Consulting ("Consulting"). The Consulting segment is conducted through EastBridge Sub. On June 23, 2014, the Company announced the discontinuation of the Consulting segment as it no longer fits into management's long-term strategy and vision. The Company will focus resources on becoming a pure-play biotechnology company bringing therapies to improve the health of patients in China.

On September 26, 2014, the Company completed its acquisition of Agreen Biotech Co. Ltd. ("AG") and the U.S. patent held by AG's founder.

AG is a biotech company with operations in China, engaged in the development of treatments for cancerous diseases utilizing proprietary cell technologies, which include without limitation, preparation of subset T Cell and clonality assay platform technology for treatment of a broad range of cancers by AG's primary hospital partner, Jilin Hospital.

NOTE 2 – BASIS OF PRESENTATION

As of February 6, 2013, in connection with the Merger, Cellular Biomedicine Group, Ltd. became the accounting acquirer thus resulting in a reverse merger for accounting purposes. Therefore, the accompanying financial statements are on a consolidated basis subsequent to February 6, 2013, but only reflect the operations of CBMG BVI prior to the date of acquisition.

The Company's Biomedicine segment has incurred significant losses during the three and nine months ended September 30, 2014; and such losses are expected to continue through 2017, until we complete our clinical trials and commercialize our cell therapies. The Company has experienced negative cash flows from operations since the inception of the Company, and has been funded with capital raises. These circumstances result in substantial doubt as to the ability of the Company to continue as a going concern. Management plans to work diligently achieve milestones with respect to the development of revenue generating activities for its cell therapies upon completion of the necessary clinical trials. The Company will need to obtain additional funding in the future in order to finance its business strategy, operations and growth through the issuance of equity, debt or collaboration arrangements. There can be no assurance that the Company will be able to achieve sustainable positive operating results or cost reductions or obtain additional funds when needed or that such funds, if available, will be obtainable on terms satisfactory to management or will provide favorable value for the Company's stockholders. The accompanying condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result from the outcome of this uncertainty.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying Condensed Consolidated Financial Statements of the Company and its subsidiaries, which are unaudited, include all normal and recurring adjustments considered necessary to present fairly the Company's financial position as of September 30, 2014 and the results of its operations and its cash flows for the periods presented. The unaudited Condensed Consolidated Financial Statements herein should be read together with the historical consolidated financial statements of the Company for the years ended December 31, 2013 and 2012 included in our Annual Report on Form 10-K for the year ended December 31, 2013. Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements reflect the accounts and operations of the Company and its majority or wholly-owned subsidiaries, beginning with the date of their respective acquisition. In accordance with the provisions of Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC") Section 810, or ASC 810, Consolidation, the Company consolidates any variable interest entity, or VIE, of which it is the primary beneficiary. The typical condition for a controlling financial interest ownership is holding a majority of the voting interests of an entity; however, a controlling financial interest may also exist in entities, such as variable interest entities, through arrangements that do not involve controlling voting interests. ASC 810 requires a variable interest holder to consolidate a VIE if that party has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company does not consolidate a VIE in which it has a majority ownership interest when the Company is not considered the primary beneficiary. The Company has determined that it is the primary beneficiary in a VIE—refer to Note 6, Variable Interest Entity. The Company evaluates its relationships with the VIE on an ongoing basis to ensure that it continues to be the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements.

These estimates and assumptions also affect the reported amounts of revenues, costs and expenses during the reporting period. Management evaluates these estimates and assumptions on a regular basis. Actual results could differ from those estimates.

Revenue Recognition

The Company utilizes the guidance set forth in the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 104, regarding the recognition, presentation and disclosure of revenue in its financial statements.

For its Consulting segment, the Company engaged in listing contracts with its clients which provided for the payment of fees, either in cash or equity, upon the achievement of certain milestones by the client, including, but not limited to the successful completion of a financial statement audit, the successful listing on a national stock exchange or over-the-counter market and the maintenance of ongoing 1934 Act reporting requirements with the Securities and Exchange Commission. In some instances, payment was made in advance of performance; however, such payment was often refundable in the event that milestones were not reached. The Company recognizes revenue as milestones are reached in accordance with FASB's ASC No. 605-28-25. Such guidance stipulates that revenue be recognized for individual elements in a multiple deliverable arrangement using the relative selling price method. The Company relied on internal estimates of the relative selling price of each element as objective third-party evidence is unattainable.

The Company has historically not recognized revenue for consulting services performed in exchange for shares of client stock until such shares are received as collectability has not been assured prior to receipt of such shares. At September 30, 2014, the Company has not recognized revenue for services that have been completed for which the Company is due to receive 5 million shares of Arem Pacific, as such shares have not yet been received.

For its Biomedicine segment, the Company recognizes revenue when persuasive evidence of an arrangement exists, the price is fixed and determinable, collection is reasonably assured and delivery of products or services has been rendered. Based on current estimates we expect our business from our acquisition of Agreen Biotech Co. Ltd (see Note 4) to generate immediate revenues and the remainder of our biomedicine business to generate revenues primarily from the development of therapies for the treatment of KOA within the next three years and HCC within the next three to five years.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At September 30, 2014 and December 31, 2013, cash and cash equivalents include cash on hand and cash in the bank. At times, cash deposits may exceed government-insured limits.

Accounts Receivable

Accounts receivable represent amounts earned but not collected in connection with the Company's Consulting segment sales. The Company's Consulting and Biomedicine segments may have account receivable balances at any given point in time. Account receivables are carried at their estimated collectible amounts.

The Company plans to follow the allowance method of recognizing uncollectible accounts receivable. The Company recognizes bad debt expense based on specifically identified customers and invoices that are anticipated to be uncollectable. At September 30, 2014 and December 31, 2013, no allowance was determined to be needed as the Company is still performing clinical trials and has not yet generated revenues from its cell therapy candidates in the Biomedicine segment. Correspondingly, the Company has not recorded any bad debt expense for the three and nine months ended September 30, 2014 or the year ended December 31, 2013.

Inventory

Inventory consists of finished goods, raw materials, work-in-process, and low value consumable materials. Inventory is initially recognized at cost and subsequently at the lower of costs and net realizable value. First-in first-out cost is used to determine the cost. Finished goods are comprised of direct materials, direct labor, depreciation and manufacturing overhead. Net realizable value is the estimated selling price, in the ordinary course of business, less estimated costs to complete and dispose. The Company regularly inspects the shelf life of prepared finished goods and, if necessary, writes down their carrying value based on their salability and expiration dates into cost of goods sold.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided for on the straight-line method over the estimated useful lives of the assets ranging from three to five years and begins when the related assets are placed in service. Maintenance and repairs that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Betterments or renewals are capitalized when incurred. Plant, property and equipment are reviewed each year to determine whether any events or circumstances indicate that the carrying amount of the assets may not be recoverable.

For the three and nine months ended September 30, 2014, depreciation expense was $137,071 and $400,731, respectively, while for the three and nine months ended September 30, 2013 depreciation expense was $122,173 and $375,173, respectively.

Goodwill and Other Intangibles

Goodwill represents the excess of the cost of assets acquired over the fair value of the net assets at the date of acquisition. Intangible assets represent the fair value of separately recognizable intangible assets acquired in connection with the Company's business combinations. The Company evaluates its goodwill and other intangibles for impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred. As part of the determination to discontinue the Consulting segment, in the second quarter of 2014, the Company expensed approximately $3,300,000 which represented the remaining goodwill from the merger.

Income Taxes

Income taxes are accounted for using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance would be provided for those deferred tax assets for which if it is more likely than not that the related benefit will not be realized.

A full valuation allowance has been established against all net deferred tax assets as of September 30, 2014 based on estimates of recoverability. Management determined that such a valuation allowance was necessary given the current and expected near term losses and the uncertainty with respect to the Company's ability to generate sufficient profits from its business model.

Share-Based Compensation

The Company periodically uses stock-based awards, consisting of shares of common stock, to compensate certain officers and consultants. Shares are expensed on a straight-line basis over the requisite service period based on the grant date fair value, net of estimated forfeitures, if any.

Fair Value of Financial Instruments

Under the FASB's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining the fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1: Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain unobservable assumptions and projections in determining the fair value assigned to such assets.

All transfers between fair value hierarchy levels are recognized by the Company at the end of each reporting period. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement in its entirety, requires judgment, and considers factors specific to the investment. The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investment in those instruments.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Investments

The fair value of "investments" is dependent on the type of investment, whether it is marketable or non-marketable.

Marketable securities held by the Company are held for an indefinite period of time and thus are classified as available-for-sale securities. The fair value is determined by the closing price for the investment as of the balance sheet date. Realized investment gains and losses are included in the statement of operations, as are provisions for other than temporary declines in the market value of available for-sale securities. Unrealized gains and unrealized losses deemed to be temporary are excluded from earnings (losses), net of applicable taxes, as a component of other comprehensive income (loss). Factors considered in judging whether an impairment is other than temporary include the financial condition, business prospects and creditworthiness of the issuer, the length of time that fair value has been less than cost, the relative amount of decline, and the Company's ability and intent to hold the investment until the fair value recovers.

The carrying amounts of other financial instruments, including cash, accounts payable and accrued liabilities, income tax payable and related party payable approximate fair value due to their short maturities.

At September 30, 2014, the Company does not currently hold any non-marketable investments.

Basic and Diluted Net Loss Per Share

Diluted income (loss) per share reflects potential dilution from the exercise or conversion of securities into common stock. The dilutive effect of the Company's share-based awards is computed using the treasury stock method, which assumes that all share-based awards are exercised and the hypothetical proceeds from exercise are used to purchase common stock at the average market price during the period. Share-based awards whose effects are anti-dilutive are excluded from computing diluted income (loss) per share.

Foreign Currency Translation

The Company's financial statements are presented in U.S. dollars ($), which is the Company’s reporting currency, while some of the Company’s subsidiaries’ functional currency is Chinese Renminbi (“RMB”). Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of transaction. Any differences between the initially recorded amount and the settlement amount are recorded as a gain or loss on foreign currency transaction in the consolidated statements of income. Monetary assets and liabilities denominated in foreign currency are translated at the functional currency rate of exchange ruling at the balance sheet date. Any differences are taken to profit or loss as a gain or loss on foreign currency translation in the statements of income. In accordance with ASC 830, Foreign Currency Matters, the Company translates the assets and liabilities into USD from RMB using the rate of exchange prevailing at the applicable balance sheet date and the statements of income and cash flows are translated at an average rate during the reporting period. Adjustments resulting from the translation are recorded in shareholders' equity as part of accumulated other comprehensive income. The People’s Republic of China (“PRC”) government imposes significant exchange restrictions on fund transfers out of the PRC that are not related to business operations. These restrictions have not had a material impact on the Company because it has not engaged in any significant transactions that are subject to the restrictions.

Comprehensive Loss

We apply ASC No. 220, Comprehensive Income (“ASC 220”). ASC 220 establishes standards for the reporting and display of comprehensive income or loss, requiring its components to be reported in a financial statement that is displayed with the same prominence as other financial statements. Our accumulated comprehensive gain (loss) was $2,449,297 and $(57,924) as of September 30, 2014 and December 31, 2013, respectively.

Reclassification

Certain prior period amounts have been reclassified to conform to current year presentations. There was no change to previously reported accumulated deficit or net loss.

Recent Accounting Pronouncements

Recent accounting pronouncements that the Company has adopted or will be required to adopt in the future are summarized below.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (“Topic 830”)—Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign

Entity or of an Investment in a Foreign Entity, ("ASU 2013-05"). This amendment clarifies the applicable guidance for the release of cumulative translation adjustment into net earnings. When an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity, the entity is required to apply the guidance in ASC 830-30 to release any related cumulative translation adjustment into net earnings. Accordingly, the cumulative translation adjustment should be released into net earnings only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. ASU 2013-05 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. Early adoption is permitted as of the beginning of the entity's fiscal year. The adoption of this guidance did not have a significant impact on the presentation of the Company's Condensed Consolidated Financial Statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

NOTE 4 – BUSINESS COMBINATIONS

On September 26, 2014, the Company aquired all of the outstanding equity of Agreen Biotech Co. Ltd. ("AG") in exchange for cash of $3,240,000 and the issuance of 753,522 shares of its common stock. Based on the closing price of the common stock on September 26, 2014, the aggregate purchase price was $17,747,415. Of the cash consideration, $2,915,000 was unpaid as of September 30, 2014 and is reflected in accrued expenses in the accompanying condensed consolidated balance sheet, and of which $1,620,000 is contingent upon certain criteria such as the performance by both parties under certain agreed-upon employment agreements with three employees and the maintenance of an ongoing relationship with an existing customer. The Company has preliminarily accrued the maximum amount payable under the acquisition agreement as it further reviews the probability that all performance criteria will be met. As a result of the acquisition, AG became a wholly-owned subsidiary of CBMG Shanghai.

The acquisition was accounted for as a business purchase pursuant to ASC Topic 805, Business Combinations. Under this ASC, acquisition and integration costs are not included as components of consideration transferred, but are accounted for as expenses in the period in which the costs are incurred.

AG is a cancer-therapy-focused developmental stage company whose intellectual property (including the intellectual property of AG’s founder, which the Company also acquired) is comprised of T Cells Receptor ("TCR") clonality analysis technology and T Central Memory Cell ("Tcm") and Dendritic Cell ("DC") preparation methodologies.

The following table provides the initial allocation of purchase price based on the estimated fair values of the assets acquired (including intangible assets) and liabilities assumed in connection with the acquisition:

Cash	$145,611
Accounts receivable	151,093
Other receivable	31,798
Inventory	174,820
Prepaid expenses	14,331
Property, plant and equipment, net	561,113
Intangible assets	9,942,000
Goodwill	7,678,789
Long-term prepaid expenses	83,051
Total assets acquired	18,782,606
Accounts payables	(47,509)
Accrued expenses	(42,013)
Other current liabilities	(523,077)
Other non-current liabilities	(422,592)
Total liabilities assumed	(1,035,191)
Net assets acquired	$17,747,415

The intangible assets acquired consist of developed technology in connection with AG’s core business, which are being amortized over an estimated life of ten years.

In connection with the AG acquisition, the Company acquired existing patents and intellectual property that were owned by AG's primary shareholder in exchange for 75,000 shares with a fair value of approximately $1,442,850. These assets are also reflected as intangible assets in the accompanying consolidated balance sheet at September 30, 2014 and are being amortized over an estimated life of 10 years.

The purchase price allocation is preliminary and is subject to revision pending the receipt of additional information relating to the fair value of the considerations granted, assets acquired and liabilities assumed. Additional information related to the fair value of the consideration granted, assets acquired and liabilities assumed that is received during the measurement period may have a material impact on the determination and allocation of the purchase price.

The following unaudited pro forma consolidated results of operations has been prepared as if the acquisition of AG and related patents and intellectual property described above had occurred on January 1, 2013 and includes adjustments for the amortization of intangibles and the earnings-per-share impacts of the issuance of shares as part of the acquisition of AG and related patents and intellectual property:

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	CBMG As stated	AG Pro forma Adjustment	Pro forma Consolidated	CBMG As stated	AG Pro forma Adjustment	Pro forma Consolidated
Net revenue	$-	$419,745	$ 419,745	$95,365	$457,360	$ 552,725
Net loss	(2,823,280)	(116,764)	(2,940,044)	576,893	15,276	592,169
Weighted average shares						
Basic	9,131,576	720,760	9,852,336	6,155,203	753,522	6,908,725
Diluted	9,131,576	720,760	9,852,336	6,229,825	753,522	6,983,347
Earnings per share						
Basic	$(0.31)		$ (0.30)	$0.09		$ 0.09
Diluted	$(0.31)		$ (0.30)	$0.09		$ 0.08

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	CBMG As stated	AG Pro forma Adjustment	Pro forma Consolidated	CBMG As stated	AG Pro forma Adjustment	Pro forma Consolidated
Net revenue	$179,120	$1,198,414	$ 1,377,534	$95,365	$750,307	$ 845,672
Net income (loss)	(9,944,074)	(48,109)	(9,992,183)	(7,343,668)	(259,246)	(7,602,914)
Weighted average shares						
Basic	8,155,213	742,481	8,897,694	5,519,634	753,522	6,273,156
Diluted	8,155,213	742,481	8,897,694	5,519,634	753,522	6,273,156
Earnings per share						
Basic	$(1.22)		$ (1.12)	$(1.33)		$ (1.21)
Diluted	$(1.22)		$ (1.12)	$(1.33)		$ (1.21)

NOTE 5 – DISCONTINUED OPERATIONS

On June 23, 2014, at a Board of Directors meeting, the Company approved the discontinuation of all activities of the Consulting segment. Accordingly, based on management's intent at June 30, 2014, the Company discontinued the Consulting segment.

As a result the Company's activities for the Consulting segment at September 30, 2014 are now limited to winding down our consulting business activities, realizing the value of the Consulting segment's remaining assets and making tax and regulatory filings related to the Consulting segment. Management's goal is to liquidate all of the Consulting segment's remaining assets as soon as practical while seeking to maximize stockholder value. All of the operations of the Consulting segment and all significant obligations to pay or make provisions to satisfy all of its expenses and liabilities will be concluded as soon as practicable. The Company intends to retain a sufficient amount of assets to ensure it is able to pay or satisfy all of the Consulting segment's remaining expenses and liabilities. Payroll and related costs and other expenses are currently anticipated to be incurred at least through September 30, 2014, in order to complete all required regulatory filings and audits. Accordingly, our estimate of expenses anticipated to be incurred from July 1, 2014, to September 30, 2014, have been accrued as of September 30, 2014, in our financial statements.

In conjunction with the discontinuance of operations, the Company recognized that all assets carrying amounts are already at their fair values less estimated cost to sell. The assets and liabilities of the discontinued operations are presented below under the captions ‘‘Assets of discontinued segment’’ and ‘‘Liabilities of discontinued segment,’’ respectively, in the accompanying Balance Sheets at September 30, 2014, and December 31, 2013, and consist of the following:

	September 30, 2014	December 31, 2013
Assets of discontinued segment:		
Cash and cash equivalents	$7,725	$409,882
Accounts receivable	24,000	10,581
Other receivable	-	50,000
Total current assets	31,725	470,463
Goodwill	-	3,299,566
Total assets	$31,725	$3,770,029
Liabilities of discontinued segment:		
Accounts payable	$85,177	$110,373
Accrued expenses	48	125,130
Advances payable to related party	-	30,590
Total liabilities	$85,225	$266,093

Amounts presented for the three and nine months ended September 30, 2014 and 2013, have been reclassified to conform to the current presentation. The following table provides the amounts reclassified for the three and nine months ended September 30, 2014 and 2013:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Amounts reclassified:				
Consulting revenue	$-	$3,092,985	$1,636,746	$3,204,419
Consulting operating expenses	(40,229)	(422,490)	(1,345,705)	(1,160,811)
Selling and marketing	(3,042)	(15,122)	(27,263)	(70,545)
Impairment expense	-	-	(3,299,566)	-
Other income (expense)	-	(9,036)	(1,726)	(334,286)
Total amount reclassified as discontinued operations	$(43,271)	$2,646,337	$(3,037,514)	$1,638,777

NOTE 6 – VARIABLE INTEREST ENTITY

Variable interest entities are those entities in which a company, through contractual arrangements, bears the risk of, and enjoys the rewards normally associated with ownership of the entity, and therefore the company is the primary beneficiary of the entity. Cellular Biomedicine Group (Shanghai) Ltd (“CBMG Shanghai”) is a VIE, through which the Company conducts stem cell research and clinical trials in China. The shareholders of record for CBMG Shanghai are Cao Wei and Chen Mingzhe, who together own 100% of the equity interests in CBMG Shanghai. The initial capitalization and operating expenses of CBMG Shanghai are funded by our wholly foreign-owned enterprise (“WFOE”), Cellular Biomedicine Group (Wuxi) Ltd. (“CBMG Wuxi”). The initial registered capital of CBMG Shanghai is 10 million RMB and was incorporated on October 19, 2011.

In February 2012, CBMG Wuxi provided financing to CBMG Shanghai in the amount of $1,587,075 for working capital purposes. In conjunction with the provided financing, exclusive option agreements were executed granting

CBMG Wuxi the irrevocable and exclusive right to convert the unpaid portion of the provided financing into equity interest of CBMG Shanghai at CBMG Wuxi's sole and absolute discretion. CBMG Wuxi and CBMG Shanghai additionally executed a business cooperation agreement whereby CBMG Wuxi is to provide CBMG Shanghai with technical and business support, consulting services, and other commercial services. The shareholders of CBMG Shanghai pledged their equity interest in CBMG Shanghai as collateral in the event CBMG Shanghai does not perform its obligations under the business cooperation agreement.

The Company has determined it is the primary beneficiary of CBMG Shanghai by reference to the power and benefits criterion under ASC 810, Consolidation. This determination was reached after considering the financing provided by CBMG Wuxi to CBMG Shanghai is convertible into equity interest of CBMG Shanghai and the business cooperation agreement grants the Company and its officers the power to manage and make decisions that affect the operation of CBMG Shanghai.

There are substantial uncertainties regarding the interpretation, application and enforcement of PRC laws and regulations, including but not limited to the laws and regulations governing our business or the enforcement and performance of our contractual arrangements. See Risk Factors below regarding “Risks Related to Our Structure”. The Company has not provided any guarantees related to CBMG Shanghai and no creditors of CBMG Shanghai have recourse to the general credit of the Company.

As the primary beneficiary of CBMG Shanghai, the Company consolidates in its financial statements the financial position, results of operations, and cash flows of CBMG Shanghai, and all intercompany balances and transactions between the Company and CBMG Shanghai are eliminated in the consolidated financial statements.

The Company has aggregated the financial information of CBMG Shanghai in the table below. The aggregate carrying value of CBMG Shanghai’s assets and liabilities (after elimination of intercompany transactions and balances) in the Company’s condensed consolidated balance sheets as of September 30, 2014 and December 31, 2013, are as follows:

	September 30, 2014	December 31, 2013
Assets		
Cash	$1,572,213	$9,100
Accounts receivable	151,093	-
Other receivable	144,554	50,383
Inventory	197,692	26,526
Prepaid expenses	326,769	33,015
Other current assets	110,518	84,661
Total current assets	2,502,839	203,685
Property, plant and equipment, net	1,048,394	772,872
Intangibles	45,484	54,793
Long-term prepaid expenses and other assets	83,054	-
Total assets	$3,679,771	$1,031,350
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	$72,157	$24,868
Other payable	1,988,562	268,301
Payroll accrual	160,337	74,384
Tax payable	-	20,150
Other non-current liabilities	422,592	-
Total liabilities	$2,643,648	$387,703

NOTE 7 – OTHER CURRENT ASSETS

Other Receivables

The Company pays deposits on various items relating to office expenses. Management has classified these deposits as receivables as the intention is to recover these deposits in less than 12 months. As of September 30, 2014 and December 31, 2013 the amounts of other receivables were $163,651 and $78,521, respectively.

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NOTE 8 – INVENTORY

At September 30, 2014 and December 31, 2013, inventory consisted of the following:

	September 30, 2014	December 31, 2013
Raw materials	$160,687	$27,979
Work in progress	51,628	-
Finished goods	135,481	91,140
	$347,796	$119,119

This inventory is from the Biomedicine segment. The Consulting segment did not have inventory.

NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

As of September 30, 2014 and December 31, 2013, property, plant and equipment, carried at cost, consisted of the following:

Fixed Asset Details

	September 30, 2014	December 31, 2013
Office equipment	$18,418	$17,100
Manufacturing equipment	1,363,295	775,449
Computer equipment	75,087	38,147
Leasehold improvements	1,393,182	1,049,889
Construction work in process	-	18,645
	2,849,982	1,899,230
Less: accumulated depreciation	(1,554,774)	(884,425)
	$1,295,208	$1,014,805

For the three and nine months ended September 30, 2014, depreciation expense was $137,071 and $400,731, respectively, while for the three and nine months ended September 30, 2013 depreciation expense was $122,173 and $375,173, respectively.

NOTE 10 – FAIR VALUE ACCOUNTING

Assets measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 are summarized as follows:

	As of September 30, 2014			
	Fair Value Measurements at Reporting Date Using:			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Assets:				
Equity position in Alpha Lujo, Inc.	$323,659	$323,659	$-	$ -
Equity position in Arem Pacific Corporation	8,000,000	8,000,000	-	-
Equity position in Wonder International Education & Investment Group Corporation	895,063	895,063	-	-
	$9,218,722	$9,218,722	$-	$ -

	As of December 31, 2013			
	Fair Vaue Measurements at Reporting Date Using:			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Equity position in Alpha Lujo, Inc.	$107,118	$107,118	$-	$ -
Equity position in Arem Pacific Corporation	3,500,000	3,500,000	-	-
Equity position in Wonder International Education & Investment Group Corporation	1,498,773	1,498,773	-	-
	$5,105,891	$5,105,891	$-	$ -

During the nine months ended September 30, 2014, the Company received 3,000,000 shares of Arem Pacific Corporation and 800,000 shares of Alpha Lujo, Inc. as compensation for services performed by the Company's Consulting segment. No shares were received in the three months ended September 30, 2014. During the year ended December 31, 2013, the Company received 5,000,000 shares of Arem Pacific Corporation as compensation for services performed by the Company's Consulting segment. As of September 30, 2014 and December 31, 2013, the Company holds 8,000,000 and 5,000,000 shares in Arem Pacific Corporation, 2,942,350 and 2,142,350 shares in Alpha Lujo, Inc., and 2,131,105 and 2,141,105 shares in Wonder International Education and Investment Group Corporation, respectively. The Company has valued these shares at the closing OTCBB quoted price on September 30, 2014. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at period end.

NOTE 11 – GOODWILL & INTANGIBLE ASSETS

As of September 30, 2014, the Company determined that an impairment existed, related to the goodwill associated with the Company's Consulting segment as a result of the discontinuation of the Consulting segment. For the three and nine months ended September 30, 2014 the Company recorded an impairment expense of approximately $3,300,000 which was reclassified to discontinued operations with the Consulting segment. No such expense was recorded in the three and nine months ended September 30, 2013.

Intangible assets that are subject to amortization are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. Assets not subject to amortization are tested for impairment at least annually. The Company evaluates the continuing value of the intangibles at each balance sheet date and records write-downs if the continuing value has become impaired. An impairment is determined to exist if the anticipated future cash flow attributable to the asset is less than its carrying value. The asset is then reduced to the net present value of the anticipated future cash flow. Goodwill is reviewed for possible impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value.

As of September 30, 2014 and December 31, 2013, intangible assets, net consisted of the following:

Patents	September 30,	December 31,

	2014	2013
Cost basis	$12,404,621	$1,020,577
Less: accumulated amortization	(726,834)	(475,381)
	$11,677,787	$545,196

Software	September 30, 2014	December 31, 2013
Cost basis	$58,467	$57,031
Less: accumulated amortization	(20,973)	(12,479)
	$37,494	$44,552

Trademark	September 30, 2014	December 31, 2013
Cost basis	$-	$11,708
Less: accumulated amortization	-	-
	$-	$11,708
Total intangibles, net	$11,715,281	$601,456

All software is provided by a third party vendor, is not internally developed, and has an estimated useful life of five years. Patents are amortized using an estimated useful life of three to ten years. Amortization expense for the three and nine months ended September 30, 2014 was $86,750 and $260,105, respectively, and amortization expense for the three and nine months ended September 30, 2013 was $95,628 and $268,206, respectively. Estimated amortization expense for each of the ensuing years are as follows for the years ending December 31:

Years ending December 31,	Amount
2014	$ 371,460
2015	1,359,638
2016	1,150,529
2017	1,148,880
2018 and thereafter	7,684,774
	$ 11,715,281

NOTE 12 – LEASES

The Company leases its corporate offices in the U.S. and it's operating facilities in China, under various non cancellable operating leases.

As of September 30, 2014, the Company has the following future minimum lease payments due under its lease agreements:

Years ending December 31,	Amount
2014	$ 133,942
2015	$ 221,747
	$ 355,689

NOTE 13 – RELATED PARTY TRANSACTIONS

The net balance due to related parties is $34,531 as of September 30, 2014, representing $4,316 for combined advances from the Company's executives and $30,215 to a subsidiary of Global Health Investment Holdings Ltd. ("Global Health"). Prior to August 26, 2014, Global Health was the Company's largest shareholder. On August 26, 2014 Global Health Investment Holdings Ltd. disseminated its CBMG shareholdings, on a pro rata basis, to its shareholders. The net balance due to related parties is $67,999 as of December 31, 2013, representing $37,784 for combined advances from the Company's executives and $30,215 to a subsidiary of Global Health, CBMG's largest shareholder.

The Company received income from the Subsidiaries of Global Health for cell kits with cell processing and storage for the three and nine months ended September 30, 2014, of approximately $-0- and $179,000, respectively. The Biomedicine segment did not have revenue for the three and nine months ended September 30, 2013.

During the year ended December 31, 2013, the Company paid $1,493,439 to the executives of its consulting segment subsidiary, Eastbridge Sub, to settle all outstanding accrued compensation liabilities.

NOTE 14 – EQUITY

ASC Topic 505 Equity paragraph 505-50-30-6 establishes that share-based payment transactions with nonemployees shall be measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. ASC Topic 470 Debt paragraph 470-50-40-3 states that, in an early extinguishment of debt through exchange for common or preferred stock, the reacquisition price of the extinguished debt shall be determined by the value of the common or preferred stock issued or the value of the debt whichever is more clearly evident. The Company's policy is to record all stock transactions at the quoted market price on the day of issuance, as the most consistently reliable measurement of the transaction value.

In September 2014, the Company entered into several agreements for the purchase of Agreen and patents as described in note 4. As a result of these transactions, the Company issued an aggregate of 828,522 shares of common stock, with a par value of $0.001, with a quoted price per share of $19.238 on the transaction for an aggregate price of approximately $15,939,000. As indicated in Note 4, the accounting for this acquisition is preliminary and is subject to revision pending the receipt of additional information relating to, among other things, the fair value of the consideration granted, including the fair value of the shares issued in connection with the acquisition. This information may have a material impact on the determination and allocation of the purchase price.

In June 2014, the Company entered into several Subscription Agreements with selected investors that met the criteria as "non-U.S. persons" who agreed to comply with the applicable requirements of Regulation S under the Act. As a result of these transactions, the Company issued to the purchasers an aggregate of 1,492,537 shares of common stock, with a par value of $0.001, at a price per share of $6.70 for an aggregate purchase price of approximately $10,000,000. The Company also issued to the lead investor in the financing, a three-year option to purchase up to 1,000,000 shares of common stock at $8.00 per share. Pursuant to the terms of the option, if at any time after 18 months following the date of issuance, the daily volume-weighted average price of the Company's common stock exceeds $12.00 for a consecutive 20 trading days, the Company shall have the right to require the holder to exercise the option in full.

In March 2014, the Company entered into several Subscription Agreements with selected investors that met the criteria as "Accredited Investors" as defined in Rule 501(a) of Regulation D under the Securities Act of 1933 (the "Act"), and other investors who met the criteria as "non-U.S. persons" who agreed to comply with the applicable requirements of Regulation S under the Act. As a result of these transactions, the Company issued to the purchasers an aggregate of 194,029 shares of common stock, with a par value of $0.001, at a price per share of $6.70 for an aggregate purchase price of approximately $1,220,000.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Executive Employment Agreements

At the close of the Merger with CBMG BVI, the Company entered into executive employment agreements with each of Wen Tao (Steve) Liu, Wei (William) Cao and Andrew Chan (the "New Officers") dated February 6, 2013 (each an "Employment Agreement," collectively, the "Employment Agreements"). Pursuant to Amendment 1 to the Employment Agreement, Andrew Chan will receive an annual base salary of $200,000. On September 29, 2013, the Company's board of directors approved new annual base salaries to Steve Liu and William Cao of $200,000 and $225,000, respectively. The New Officers are also eligible to participate in the Company's Amended and Restated 2011 Incentive Stock Option Plan (the "2011 Plan") and receive an option grant thereunder for the purchase of common stock of the Company at the discretion of the board of directors of the Company (the "Board"). The term of the New Officers'

employment agreements are effective as of February 6, 2013 and continue for three years thereafter. After the three year term, if the New Officers continue to be employed, they will be employed on an at-will basis and their agreements shall automatically renew for successive one year terms, until and unless their employment is terminated.

Each of the above Executive Employment Agreements contain termination provisions that dependent on the reason an executive is terminated, severance payments and the payment of COBRA premiums may be triggered.

On January 3, 2014 the Company entered into an executive employment agreement with Bizuo (Tony) Liu (the "Liu Employment Agreement"). Pursuant to the Liu Employment Agreement, Tony Liu will receive an annual base salary of $210,000 with substantially similar terms and conditions as the New Officers.

On May 1, 2014 the Company revised Wen Tao (Steve) Liu's agreement (the "Wen Tao Employment Agreement") . Pursuant to the Wen Tao Agreement, Steve Liu will receive an annual base salary of $150,000 as part-time Executive Chairman.

EastBridge Employment Agreements with Norman Klein and Keith Wong

On February 6, 2013, EastBridge entered into employment agreements with Norman Klein and Keith Wong (each a "Subsidiary Employment Agreement," collectively, the "Subsidiary Employment Agreements").

Pursuant to Mr. Wong's Subsidiary Employment Agreement with EastBridge, Mr. Wong is entitled to an annual base salary of $240,000. Mr. Wong is also eligible to participate in the Plan.

Pursuant to Mr. Klein's Subsidiary Employment Agreement with EastBridge, Mr. Klein is entitled to an annual base salary of $180,000. Mr. Klein is also eligible to participate in the Plan.

The Subsidiary Employment Agreements were effective as of February 6, 2013 and shall continue for three years thereafter unless earlier terminated. After the three year term, Mr. Wong and Mr. Klein were to continue to be employed on an at-will basis and their employment agreements automatically renew for successive one year terms until terminated.

Each of the above Subsidiary Employment Agreements contain termination provisions dependent on the reason employment is terminated, severance payments and the payment of COBRA premiums may be triggered.

Effective July 31, 2014, in connection with the Company's discontinuation of its consulting business, the Company terminated the Subsidiary Employment Agreements with Messrs. Klein and Wong. On the same date, the Company entered into severance agreements with Messrs. Klein and Wong. Pursuant to the terms of the severance agreements, the Company agreed to pay severance of $360,000 and $480,000 to Messrs. Klein and Wong, respectively, as well as an additional lump sum of $4,200 and $12,480, respectively, to cover the equivalent costs of retaining two years of medical coverage under the Company's current medical plan for such individuals.

Deferred Compensation Arrangement with Former Officers

On February 5, 2013, the Company entered into a Deferred Compensation Agreement with Keith Wong and Norman Klein (the "Former Executives"), in which the Company agreed to: (i) pay its Former Executives certain accrued unpaid cash compensation consisting of $676,839 payable to Keith Wong and $459,300 payable to Norman Klein, plus aggregate accrued interest calculated at the simple rate of 12% per annum; and (ii) pay on August 31, 2013, a cash bonus payment of $204,723 to Mr. Wong and $152,577 to Mr. Klein. As of September 30, 2013, all such amounts were paid. No such agreements are in 2014.

Discontinued Operations Plan

On June 30, 2014, pursuant to the discontinuation of the Consulting business, the Company offered a severance agreement with Mr. Wong and Mr. Klein. The terms and conditions of the severance agreement are commensurate with the Subsidiary Employment Agreements and as a result the company has expensed approximately $887,000 in discontinued operations for severance in the nine months ended September 30, 2014.

Collaboration Agreement

Part of AG's business (see Note 4) includes a collaboration agreement to establish and operate a biologic treatment center in the Jilin province of China. Under the terms of the agreement, AG's collaborative partner funded the development of the center and provides certain ongoing services. In exchange, the partner receives preferred

repayment of all funds that were invested in the development, 60% of the net profits until all of the invested funds are repaid, and 40% of the net profits thereafter, and the rights to the physical assets at the conclusion of the agreement. We are accounting for this transaction in accordance with ASC 808 Collaborative Arrangements and have reflected all assets and liabilities of the treatment center. While a liability exists for the amounts to be repaid to the partner for the initial funding, the Company has not yet recognized a liability for the partners rights to the assets upon the conclusion of the agreement. As described in Note 4, the Company is continuing to receive additional information to finalize its purchase accounting, including the accounting for the fair value, if any, of this liability.

NOTE 16 – STOCK BASED COMPENSATION

Our stock-based compensation arrangements include grants of stock options and restricted stock awards under the Stock Option Plan (the “2009 Plan”, “2011 Plan”, and the “2013 Plan”), and certain awards granted outside of these plans.

Refer to the Current Report on Form 10-K filed April 15, 2014, for further information on our stock-based compensation arrangements. The compensation cost that has been charged against income related to stock-based compensation (including shares issued for services and expense true-ups and reversals) is as follows;

The Company recognized expense of $22,153 and $85,671 associated with restricted stock awards during the three and nine months ended September 30, 2014 and $49,071 and $192,547 for the three and nine months ended September 30, 2013, respectively. As of September 30, 2014, there was $118,469 related to an aggregate of 13,726 of non-vested restricted stock awards. These costs are expected to be recognized over a weighted-average period of 1.01 years for the restricted stock awards.

During the three and nine months ended September 30, 2014, the Company issued stock options under the 2011 and 2013 Plans to purchase an aggregate of 767,500 shares of the Company's common stock to officers, directors and employees. The grant date fair value of these options, net of estimated forfeitures, was $4,986,660 using Black-Scholes option valuation models with the following assumptions: exercise price equal to the grant date stock price of $5.00 to $28.49, volatility of 122% to 130%, expected life 6.0 years, and risk-free rate of 1.77 to 2.08%. The Company is expensing these stock option awards on a straight-line basis over the requisite service period. The Company recognized expense of $377,870 and $990,492 associated with stock option awards during the three and nine months ended September 30, 2014 and $191,904 and $385,645 for the three and nine months ended September 30, 2013, respectively. As of September 30, 2014, there was $7,867,009 of total unrecognized compensation cost related to an aggregate of 1,104,091 of non-vested stock option awards. These costs are expected to be recognized over a weighted-average period of 2.06 years for the stock options awards.

The following table summarizes stock option activity as of December 31, 2013 and for the nine months ended September 30, 2014:

	Number of Units	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Oustanding at December 31, 2013	705,073	$4.19	9.2	$735,132
Grants	767,500	10.96		
Forfeitures	(68,750)	5.28		
Exercises	(2,900)	5.34		
Outstanding at September 30, 2014	1,400,923	$7.22	9.1	$11,113,268
Vested and exercisable at September 30, 2014	296,832	$3.91	8.6	$3,068,048

Exercise Price	Number of Shares Outstanding	Exercisable
$ 3.00 - $4.95	350,883	182,827
$ 5.00 - $9.19	800,740	111,105
$ 14.50 +	249,300	-
	1,400,923	293,932

NOTE 17 – NET INCOME (LOSS) PER SHARE

Basic and diluted net loss per common share is computed on the basis of our weighted average number of common shares outstanding, as determined by using the calculations outlined below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Loss from continuing operations	$ (2,780,009)	$ (1,682,950)	$ (6,906,560)	$ (8,595,951)
Income (loss) on discontinued operations	$ (43,271)	$ 2,259,843	$ (3,037,514)	$ 1,252,283
Net income (loss)	$ (2,823,280)	$ 576,893	$ (9,944,074)	$ (7,343,668)
Weighted average shares of common stock	9,131,576	6,155,203	8,155,213	5,519,634
Dilutive effect of stock options	-	63,961	-	-
Restricted stock vested not issued	-	10,661	-	-
Common stock and common stock equivalents	9,131,576	6,229,825	8,155,213	5,519,634
Loss from continuing operations per basic share	$ (0.30)	$ (0.27)	$ (0.85)	$ (1.56)
Loss from continuing operations per diluted share	$ (0.30)	$ (0.27)	$ (0.85)	$ (1.56)
Income (loss) on discontinued operations per basic share	$ -	$ 0.37	$ (0.37)	$ 0.23
Income (loss) on discontinued operations per diluted share	$ -	$ 0.36	$ (0.37)	$ 0.23
Net income (loss) per basic share	$ (0.31)	$ 0.09	$ (1.22)	$ (1.33)
Net income (loss) per diluted share	$ (0.31)	$ 0.09	$ (1.22)	$ (1.33)

NOTE 18 – INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period during which such rates are enacted.

The Company considers all available evidence to determine whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become realizable. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carry-forward periods), and projected taxable income in assessing the realizability of deferred tax assets. In making such judgments, significant weight is given to evidence that can be objectively verified. Based on all available

evidence, in particular our three-year historical cumulative losses, recent operating losses and an expected U.S. pre-tax loss for the fiscal year ending December 31, 2013, we recorded a valuation allowance against our U.S. net deferred tax assets. In order to fully realize the U.S. deferred tax assets, we will need to generate sufficient taxable income in future periods before the expiration of the deferred tax assets governed by the tax code.

In both the three and nine months ended September 30, 2014, income tax expense (benefit) was $0, as the Company applied a valuation allowance to the net tax benefit.

NOTE 19 – SEGMENT INFORMATION

As stated in Note 5, as of June 23, 2014, the Company decided to discontinue the Consulting segment. As such, going forward, the Company will only have one remaining business unit. Therefore, the Company will not be presenting segment information until such time as another segment is developed.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis summarizes the significant factors affecting our results of operations, financial condition and liquidity position for the three and nine months ended September 30, 2014 and 2013, and should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this filing.

This report contains forward-looking statements. These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Factors that might affect our forward-looking statements include, among other things:

- overall economic and business conditions;
- the demand for our products and services;
- competitive factors in the industries in which we compete;
- the results of our pending and future litigation;
- the emergence of new technologies which compete with our product and service offerings;
- our cash position and cash burn rate;
- other capital market conditions, including availability of funding sources;
- the strength of our intellectual property portfolio; and
- changes in government regulations in China and the U.S. related to our industries.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expe "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" and similar expressions. These statements our current views with respect to future events and are based on assumptions and are subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. We discuss many of these risks in greater detail under the heading "Risk Factors" included in other reports we file with the Securities and Exchange Commission. Also, these forward-looking statements represent our estimates and assumptions only as of the date of the document containing the applicable statement.

Unless required by law, we undertake no obligation to update or revise any forward-looking statements to reflect new information or future events or developments. Thus, you should not assume that our silence over time means that actual events are bearing out as expressed or implied in such forward-looking statements.

OVERVIEW

For purposes of this periodic report, “CBMG BVI” refers to Cellular Biomedicine Group Ltd., a British Virgin Islands corporation, which is now a wholly-owned subsidiary of the registrant, together with its business, operations, subsidiaries and controlled entities). The “Company”, “CBMG”, “we”, “us”, “our” and similar terms refer to Cellu Biomedicine Group, Inc. (a Delaware corporation) as a combined entity including each of its subsidiaries and controlled companies following the merger (formerly EastBridge Investment Group Corporation), unless the context otherwise requires.

Recent Developments

On September 26, 2014 (the “Closing”), the Company completed the acquisition of Agreen Biotech Co. Ltd. (“AG”) and its founder’s U.S. patent for a total cash and equity consideration of $3.28 million in cash and an aggregate of 828,522 restricted shares of Company common stock. AG is a cancer-therapy-focused developmental stage company whose intellectual property is comprised of T Cells Receptor ("TCR") clonality analysis technology and T Central Memory Cell ("Tcm") and Dendritic Cell ("DC") preparation methodologies. The acquisition was structured as follows:

Cellular Biomedicine Group (Shanghai) Ltd (“CBMG Shanghai”), the Company’s variable interest entity, acquired 100% of the equity interest of AG

Cellular Biomedicine Group (HK) Ltd (“CBMG HK”) acquired 100% of the intellectual property of AG and the U.S. patent owned by AG’s founder

Pursuant to a framework agreement dated August 2, 2014 and a technology transfer agreement dated September 1, 2014, as consideration for the acquisition of AG, the Company agreed to pay the following: (i) $1,640,000 to the shareholders of AG (inclusive of the RMB2 million deposit already paid to the AG shareholders at the signing of the framework agreement), to be paid at Closing; (ii) $1,640,000 to Cellular Immunity Tech Ltd., a British Virgin Islands company that held the intellectual property of AG and is owned by the AG shareholders, to be paid within one year and one day of the Closing, provided, however, that within one year of Closing, (x) AG will have signed cooperative agreements with at least two new hospitals for the provision of AG’s technical services and (y) AG’s cooperative relationship with General Hospital of Jilin Chemical Group Corporation (“Jilin Hospital”) has not been materially adversely affected, resulting in a suspension or termination of such relationship for 60 days or more; and (iii) 753,522 shares of the Company’s common stock, par value $0.001 per share, to be delivered to the AG shareholders within five business days after Closing.

In connection with the acquisition, on September 26, 2014 the Company also entered into a patent purchase agreement with Zhong Chen Kou, the founder of AG, to acquire Kou’s U.S. Patent No. 7,375,211, “Method for Detection and Qualification of T-Cell Receptor V Repertoire.” As consideration for the patent, the Company agreed to issue 75,000 restricted shares of Company common stock.

AG is focused on developing and marketing its technical service and test kits to hospitals that treat cancer patients who are undergoing immune cell therapy classified as 3rd Medical Technology by regulatory agencies in China. We have developed proprietary practical knowledge in the use of cell-based therapeutics that we believe could be used to help a great number of people suffering from cancer. Specifically, we provide technical services comprised of T Cell Receptors ("TCR") clonality analysis technology and T Central Memory Cell ("Tcm") and Dendritic Cell ("DC") preparation methodologies. The TCR clonality analysis technology is based on the use of the multiple sets of unique primers to amplify 22 regions of the TCR and thereby detect clonal expansions related to antigen stimulation of the immune system, which enables the assessment of tumor specific immunity with high accuracy and efficiency. Tcm cells are the subpopulation of T lymphocytes with key characteristics including high potency and long-term memory of specific immunity; and they are the key element of immunocellular fortification against tumors, infections and immune disorders. The Tcm cells are drawn from the cancer patient’s own blood and the therapy using these cells is classified in China as Medical Technology, which enables such therapy to be covered by medical insurance in more than ten provinces in China.

AG's primary market is China. Jilin Hospital, AG's primary hospital partner, currently uses AG's technical services and test kits to treat patients who are undergoing cancer immune cell therapy in China. Based on AG's results to date, AG believes that its TCR and Tcm services are safe and effective treatment options for cancer patients. The company believes that the results of AG's proof-of-concept studies will support formal clinical trials with prominent hospitals in China, which can then be carried out through a network of authorized treatment centers throughout China.

On June 23, 2014, the board of directors of the Company determined to discontinue the Company's legacy consulting business segment and to focus the Company's operations exclusively on its biomedicine business, acquired in February 2013.

On June 18, 2014, the Company closed a financing transaction pursuant to which it sold an aggregate of 1,492,537 shares of the Company's common stock to selected investors at $6.70 per share, for total gross proceeds of approximately $10,000,000. The shares were sold pursuant to separate subscription agreements (the form of which is attached to the 8-K filed on June 23, 2014, as Exhibit 10.1) between the Company and each investor. The Company also issued to a designee of the lead Investor in the financing a three-year option to purchase up to 1,000,000 shares of common stock at $8.00 per share, subject to adjustment for stock splits, stock dividends, combinations of shares and similar recapitalization transactions. Pursuant to the terms of the option, if at any time after 18 months following the date of issuance, the daily volume-weighted average price of the Company's common stock exceeds $12.00 for a consecutive 20 trading days, the Company shall have the right to require the holder to exercise the option in full.

In 2013, we completed Phase I/IIa clinical trials for our Knee Osteoarthritis ("KOA") and Hepatocellular Carcinoma ("HCC") therapies. In June 2014 we received six-month MRI data for our KOA Phase IIa clinical trial on statistically relevant evidence of cartilage growth and in September 2014 completed 12-month follow up. In June 2014 we also completed patient enrollment and treatment for our Phase IIb KOA trial. We expect to have 12-month follow-up for Phase I/IIa published in the fourth quarter of 2014. We are continuing our observation of Phase I HCC Tumor Cell Targeted Dendritic Cell ("TC-DC") therapy trial patients beyond the safety analysis and expect to have an update in late 2014. In October 2014, we have also launched a pre-clinical study on human adipose derived mesenchymal progenitor cell ("haMPC") therapy for Asthma, and Chronic Obstructive Pulmonary Disease ("COPD") and clinical research studies in cartilage defect stem cell therapy.

With regard to our intellectual property portfolio, in the third quarter of 2014, in addition to,patents relating to the use of haMPC for the prevention, and treatment of Osteoarthritis and a patent for using allogeneic haMPCs or mesenchymal progenitor cells for the prevention and treatment of Rheumatoid Arthritis, we secured other cancer-related intellectual property through the AG acquisition.

In the next 12 months, we aim to accomplish the following in our biomedicine business:

Complete the preclinical safety studies on Asthma, and COPD and clinical research studies in cartilage defect stem cell therapy.

Publish the KOA Phase IIa twelve month data including MRI data that demonstrates clear signs of efficacy.

Publish the KOA Phase IIb six month interim data including MRI data that demonstrates clear signs of efficacy

Obtain approval for pending Patent Cooperation Treaty (“PCT”) patents.

Launch cancer immune cell therapy clinical trials.

Develop IP on allogeneic HaMPC therapy for Asthma

For the three and nine months ended September 30, 2014 we generated $118,069 and $179,120, respectively, in revenue from the sales of A-Stromal™ enzyme reagent kits. For the three and nine months ended September 30, 2013, the biomedicine business did not generate revenue from the sales of enzyme reagent kits. We expect our biomedicine business to generate revenues primarily from the development of therapies for the treatment of KOA in 2014 and HCC in 2015 or 2016.

Our operating expenses for the three and nine months ended September 30, 2014 were in line with management’s plans and expectations. We incurred an increase in total operating expenses of approximately $194,000 for the three ended September 30, 2014, and a decrease of approximately $2,530,000 for the nine months ended September 30, 2014, as compared to the three and nine months ended September 30, 2013, which is primarily attributable to costs incurred in 2013 in connection with our Merger and expenses related to being a public company.

In addition, during the nine months ended September 30, 2013 we issued 342,360 shares of common stock, for which we recorded an expense of $1,694,682, based on the quoted market prices on the dates of issuance. These issuances were made to certain pre-merger private investors in CBMG BVI while it was a privately-held corporation. CBMG BVI agreed that if it did not achieve ten Phase II clinical trials by March 31, 2013 it would issue certain contingent shares to its private investors. This contingent share obligation to investors was assumed by the Company in the merger. On March 29, 2013 the Company issued the contingent shares to these pre-merger investors as required. No further agreements exist as of September 30, 2014.

Corporate History

Merger Between CBMG and EastBridge Investment Group Corporation

On November 13, 2012, EastBridge Investment Group Corporation ("Eastbridge") (then an Arizona corporation) signed an agreement to merge with Cellular Biomedicine Group Limited (“CBMG BVI”), at that time a British Virgin Islands company. Under the merger agreement, EastBridge’s wholly-owned merger subsidiary agreed to merge with CBMG BVI, with CBMG BVI as the surviving entity. As a result of the merger, which was consummated on February 6, 2013, Cellular Biomedicine Group Ltd. became the wholly-owned subsidiary of EastBridge Investment Group Ltd. The transactions under the merger agreement as amended are referred to as the “Merger”.

Also in connection with the Merger, we created a new Delaware subsidiary called EastBridge Investment Corp. ("EastBridge Sub"). Pursuant to a Contribution Agreement by and between EastBridge and EastBridge Sub dated February 5, 2013 (the "Contribution Agreement"), EastBridge contributed all of its current assets and liabilities to a newly formed, wholly-owned subsidiary of EastBridge, named "EastBridge Investment Corp.," which continued the current business and operations of EastBridge until June 30, 2014, when we discontinued the consulting segment of our business.

Effective on March 5, 2013 we changed our corporate name to "Cellular Biomedicine Group, Inc." As of the date of this report, our primary business is in the field of biomedicine.

BIOMEDICINE BUSINESS

Our biomedicine business was founded in 2009 as a newly formed specialty biomedicine company by a team of seasoned Chinese-American executives, scientists and doctors. In 2010 we established a GMP facility in Wuxi, and in 2012 we established a U.S. Food and Drug Administration (“FDA”) GMP standard protocol-compliant manufacturing facility in Shanghai. Our focus has been to monetize the rapidly growing health care market in China by marketing and commercializing stem cell and immune cell therapeutics, related tools and products from our patent-protected homegrown cell technology developed by our research and development team, as well as by utilizing exclusively in-licensed and other acquired intellectual properties.

Our current treatment focal points are cancer and other degenerative diseases such as KOA, Asthma, COPD and Cartilage Defects.

Cancer. In the cancer field, our in-licensed TC-DC therapy utilizes dendritic cells that have been taught the unique "signature" of the patient's’ cancer, in order to trigger an effective immune response against cancer stem cells, the root cause of cancer metastasis and recurrence. Our TC-DC product candidate has successfully completed a U.S. FDA Phase II clinical trial for the treatment of Metastatic Melanoma at the Hoag Medical Center in California. We have a process to develop MNP and NP cells with high purity levels, validated by synapse formation, and have shown functional innervation with human muscle cells. Under applicable international reciprocity procedures we are utilizing data generated in a U.S. Phase II clinical trial in an analogous China-based Phase I/II Clinical Trial for the treatment of Hepatocellular Carcinoma (“HCC”), a major type of Liver Cancer. Management believes we will be able to leverage skin cancer data produced in ongoing trials in the U.S., and apply it toward advancing our product candidate for the treatment of liver cancer and other cancer-related indications. As of December 31, 2013, we have completed the HCC Phase I trial.

KOA. In 2013, we completed a Phase I/IIa clinical trial for our Knee Osteoarthritis (“KOA”) therapy named ReJoinTM. The trial tested the safety and efficacy of intra-articular injections of autologous haMPCs in order to reduce inflammation and repair damaged joint cartilage. The 6-month follow-up clinical data showed ReJoinTM therapy to be both safe and effective.

In Q2 2014 we completed patient enrollment for the Phase IIb clinical trial of ReJoinTM for KOA. The multi-center study has enrolled 53 patients to participate in a randomized, single blind trial. We expect to publish 12 month follow-up data of Phase I/IIa in Q4, 2014; and interim observation of Phase IIb information by Q1 2015, and 12 month follow-up data in late 2015.

Asthma. In Q1 of 2014 we began a pre-clinical study on human adipose derived mesenchymal progenitor cell (haMPC) therapy for asthma. The pre-clinical study, conducted by Shanghai First People’s Hospital, a leading teaching hospital affiliated with Shanghai Jiaotong University, will evaluate the safety and efficacy of haMPCs to treat severe asthma.

COPD. COPD refers to a group of diseases that block airflow to the lungs and make it difficult to breathe. The two most common conditions that make up COPD are chronic bronchitis and emphysema, which gradually destroys the smallest air passages (bronchioles) in the lungs. Currently the common treatments for COPD, such as use of steroids, inhalers and bronchodilator drugs, aim to control the symptoms and minimize further damage, but do not reverse the tissue damage. The major risk factors for COPD in China are tobacco smoking, biomass fuel use and genetic susceptibility.

Our pre-clinical study is being conducted by Shanghai First People's Hospital, a leading teaching hospital affiliated with Shanghai Jiaotong University. Professor Zhou Xin, director of the hospital's respiratory department and

chairperson of Respiratory Diseases Division of Shanghai Medical Association, will lead the study as Principal Investigator.

The unique lines of adult adipose-derived stem cells and the immune cell therapies enable us to create multiple cell formulations in treating specific medical conditions and diseases, as well as applying single cell types in a specific treatment protocol. Management believes that our adult adipose-derived line will become commercially viable and market-ready within three to four years, and will continue to grow the budding immune cell technical service revenue. Our facilities are certified to meet the international standards NSF/ANSI 49, ISO-14644 (or equivalent), ANSI/NCSL Z-540-1 and 10CFR21, as well as Chinese CFDA standards CNAS L0221. In addition to standard protocols, we use proprietary processes and procedures for manufacturing our cell lines, comprised of:

Banking processes that ensure cell preservation and viability;

DNA identification for stem cell origin chain of custody; and

Bio-safety testing at independently certified laboratories.

We are proud to have a share in an emerging field that has great potential for a significant positive impact on society. Our directors, scientists, doctors and employees share a sense of responsibility that ensures we maintain stringent international safety and quality control standards and focus on the patients and caregivers who will benefit the most from the application of breakthroughs in regenerative medicine.

We are focused on developing and marketing safe and effective cell-based therapies based on our cellular platforms, to treat serious chronic and degenerative diseases including cancers, orthopedic diseases including osteoarthritis and tissue damage, various inflammatory diseases and metabolic diseases. We have developed proprietary practical knowledge in the use of cell-based therapeutics that we believe could be used to help a great number of people suffering from cancer and serious chronic diseases. We have two therapies undergoing clinical studies in China: stem cell based therapies to treat knee osteoarthritis (“KOA”) and an immune cell therapy to treat liver cancer (“HCC”). We have initiated preclinical studies in Asthma, and Chronic Obstructive Pulmonary Disease ("COPD") and clinical research studies in cartilage defect stem cell therapy.

Our primary target market is Greater China. Our first two therapy candidates are currently used to treat patients in research studies conducted in China. We are also engaged in a number of pre-clinical studies for other product or therapy candidates, which we believe have the potential to become safe and effective treatment options for a variety of degenerative and debilitating conditions. We believe that the results of our research studies will support expanded preclinical and clinical trials with a larger population of patients, which we expect to carry out through authorized treatment centers throughout Greater China. With the recent acquisition of AG, we added technical services revenue comprised of T Cells Receptor ("TCR") clonality analysis technology and T Central Memory Cell ("Tcm") and Dendritic Cell ("DC") preparation methodologies.

Regenerative Medicine and Cell Therapy

Regenerative medicine is the “process of replacing or regenerating human cells, tissues or organs to restore or establish normal function”. Cell therapy as applied to regenerative medicine holds the promise of regenerating damaged tissues and organs in the body by rejuvenating damaged tissue and by stimulating the body’s own repair mechanisms to heal previously irreparable tissues and organs. Medical cell therapies are classified into two types: allogeneic (cells from a third-party donor) or autologous (cells from one’s own body), with each offering its own distinct advantages. Allogeneic cells are beneficial when the patient’s own cells, whether due to disease or degeneration, are not as viable as those from a healthy donor. Similarly, in cases such as cancer, where the disease is so unique to the individual, autologous cells can offer true personalized medicine.

Regenerative medicine can be categorized into major subfields as follows:

Cell Therapy. Cell therapy involves the use of cells, whether derived from adults, children or embryos, third party donors or patients, from various parts of the body, for the treatment of diseases or injuries. Therapeutic applications may include cancer vaccines, cell based immune-therapy, arthritis, heart disease, diabetes, Parkinson’s and Alzheimer’s diseases, vision impairments, orthopedic diseases and brain or spinal cord injuries. This subfield also includes the development of growth factors and serums and natural reagents that promote and guide cell development.

Tissue Engineering. This subfield involves using a combination of cells with biomaterials (also called “scaffolds”) to generate partially or fully functional tissues and organs, or using a mixture of technology in a bioprinting process. Some natural materials, like collagen, can be used as biomaterial, but advances in materials science have resulted in a variety of synthetic polymers with attributes that would make them uniquely attractive for certain applications. Therapeutic applications may include heart patch, bone re-growth, wound repair, replacement neo-urinary conduits, saphenous arterial grafts, inter-vertebral disc and spinal cord repair.

Diagnostics and Lab Services. This subfield involves the production and derivation of cell lines that may be used for the development of drugs and treatments for diseases or genetic defects. This sector also includes companies developing devices that are designed and optimized for regenerative medicine techniques, such as specialized catheters for the delivery of cells, tools for the extraction of stem cells and cell-based diagnostic tools.

All living complex organisms start as a single cell that replicates, differentiates (matures) and perpetuates in an adult through its lifetime. Cell therapy is aimed at tapping into the power of cells to prevent and treat disease, regenerate damaged or aged tissue and provide cosmetic applications. The most common type of cell therapy has been the replacement of mature, functioning cells such as through blood and platelet transfusions. Since the 1970s, bone marrow and then blood and umbilical cord-derived stem cells have been used to restore bone marrow and blood and immune system cells damaged by chemotherapy and radiation used to treat many cancers. These types of cell therapies have been approved for use world-wide and are typically reimbursed by insurance.

Over the past number of years, cell therapies have been in clinical development to attempt to treat an array of human diseases. The use of autologous (self-derived) cells to create vaccines directed against tumor cells in the body has been demonstrated to be effective and safe in clinical trials. Researchers around the globe are evaluating the effectiveness of cell therapy as a form of replacement or regeneration of cells for the treatment of numerous organ diseases or injuries, including those of the brain and spinal cord. Cell therapies are also being evaluated for safety and effectiveness to treat heart disease, autoimmune diseases such as diabetes, inflammatory bowel disease, joint diseases and cancerous diseases. While no assurances can be given regarding future medical developments, we believe that the field of cell therapy is a subset of biotechnology that holds promise to improve human health, help eliminate disease and minimize or ameliorate the pain and suffering from many common degenerative diseases relating to aging.

Recent Developments in Cancer Cell Therapy

According to the U.S. National Cancer Institute, despite years of undulating steps, excitement is growing for immunotherapy—therapies that harness the power of a patient's immune system to combat their disease, or what some in the research community are calling the "fifth pillar" of cancer treatment.

One approach to immunotherapy involves engineering patients' own immune cells to recognize and attack their tumors. And although this approach, called adoptive cell transfer ("ACT"), has been restricted to small clinical trials so far, treatments using these engineered immune cells have generated some remarkable responses in patients with advanced cancer. For example, in several early-stage trials testing ACT in patients with advanced acute lymphoblastic leukemia ("ALL") who had few if any remaining treatment options, many patients' cancers have disappeared entirely. Several of these patients have remained cancer free for extended periods.

Equally promising results have been reported in several small clinical trials involving patients with lymphoma. Although the lead investigators cautioned that much more research is needed, the results from the trials performed thus far are proofs of principle that researchers can successfully alter patients' T cells so that they attack their cancer cells.

ACT's building blocks are T cells, a type of immune cell collected from the patient's own blood. After collection, the T cells are genetically engineered to produce special receptors on their surface called chimeric antigen receptors ("CARs"). CARs are proteins that allow the T cells to recognize a specific protein (antigen) on tumor cells. These engineered CAR T cells are then grown in the laboratory until they number in the billions. The expanded population of CAR T cells is then infused into the patient. After the infusion, if all goes as planned, the T cells multiply in the patient's body and, with guidance from their engineered receptor, recognize and kill cancer cells that harbor the antigen on their surfaces. This process builds on a similar form of ACT pioneered from NCI's Surgery Branch for patients with advanced melanoma. NCI's Pediatric Oncology Branch commented that the CAR T cells are much more potent than anything they can achieve with other immune-based treatments being studied. Although investigators working in this field caution that there is still much to learn about CAR T-cell therapy, the early results from trials like these have generated considerable optimism. Researchers opined that CAR T-cell therapy eventually may become a standard therapy for some B-cell malignancies like ALL and chronic lymphocytic leukemia.

Market for Cell-Based Therapies

In 2013, U.S. sales of products which contain stem cells or progenitor cells or which are used to concentrate autologous blood, bone marrow or adipose tissues to yield concentrations of stem cells for therapeutic use were, conservatively, valued at $236 million at the hospital level. It is estimated that the orthopedics industry used approximately 92% of the stem cell products.

The forecast is that in the United States, shipments of treatments with stem cells or instruments which concentrate stem cell preparations for injection into painful joints will fuel an overall increase in the use of stem cell based treatments re−sulting in a 61% increase to $380 million in 2014, and an increase to $5.7 billion in 2020, with key growth areas being Spinal Fusion, Sports Medicine and Osteoarthritis of the joints.

According to data published in the executive summary of the 2014 New York Stem Cell Summit Report, the U.S. specific addressable market in KOA is $83 million, estimated to grow to $1.84 billion by 2020. It is forecast that within the Orthopedic Stem Cell Market, in 2014 23% ($77 million) will be in the field of cartilage repair, rising to 56% ($1.7 billion) by 2020. According to International Journal of Rheumatic Diseases, 2011 there are over 57 million people with KOA in China. There are about 1,000 newborns with Spinal Muscular Atrophy Type I ("SMA-I") disease in China annually. The median life span of these children is less than 6 months. Adult incidence is approximately 2 million in China.

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China accounts for about 45% of cases and 40% of liver cancer deaths globally, and about 340,000 new cases of HCC (90% of liver cancer cases are HCC) per year. Aggressive surgical resection (surgical removal) of tumors is one of the primary treatment options for patients with HCC. However, post-surgery 2-year recurrence rate of HCC is still over 51%. There are an estimated 30,000 new cases of metastatic melanoma each year in China. In 2009, the global market for cell-based cancer therapies reached $2.7 billion, and was expected to reach $7.5 billion in 2013.

There over 30 million people in China suffering from asthma without effective therapies. Respiratory diseases account for 15% of deaths in China. China has the largest asthmatic population in the world and is one of the countries with the highest asthma mortality rate. (Source: Respirology 2013, Asian Pacific Society of Respirology)

According to Respirology 2013, Asian Pacific Society of Respirology, COPD account for 15% of deaths in China and poses a high economic and social burden on families and communities in China, due to the expense of prescription drugs and the impact on quality of life, with many patients deteriorating to the point of being unable to work and a shortened life span. Based on estimates by World Health Organization (WHO) of 2.5% prevalence of COPD in China. Over 32 million people in China suffer from COPD, so the need for innovative solutions is pressing as this disease represents a significant unmet medical need.

The current data on CAR T-cell therapies, presented from various institutions including MSKCC, University of Pennsylvania, National Cancer Institute, and Fred Hutchinson Cancer Center, has been extremely positive. Recently, T cell checkpoint manipulation has brought hope to the struggling battle against cancer using immune cell therapy technologies. Merck has received fast approval for its PD-1 antibody therapy for Melanoma. Novartis CAR-T technology has made breakthroughs in treating B cell lymphoma using genetically modified T cell technology.

Management believes the remaining risk in monetizing cancer immune cell therapies is concentrated in late stage clinical studies, speed-to-approval, manufacturing and process optimization.

Approved cell therapies have been appearing on the market in recent years. In 2011, however, the industry was dealt two setbacks when Geron Corporation discontinued its embryonic program, and when Sanofi-Aventis acquired Genzyme Corporation and did not acquire the product rights relating to the allogeneic cell technology of Osiris Therapeutics, Inc., a partner of Genzyme and a leader in the field. In both cases there were difficulties navigating the U.S. regulatory requirements for product approval. Inadequate trial designs were cited in the executive summary of the 2012 New York Stem Cell Summit Report as contributing to these failures.

The number of cell therapy companies that are currently in Phase 2 and Phase 3 trials has been gathering momentum, and we anticipate that new cellular therapy products will appear on the market within the next several years.

Our Strategy

The majority of our biomedicine business is in the development stage. We intend to concentrate our business on cell therapies and in the near-term, carrying our KOA stem cell therapy and cancer immune cell therapies to commercialization.

We are developing our business in cell therapeutics and capitalizing on the increasing importance and promise that adult stem cells have in regenerative medicine. Our most advanced candidate involves adipose-derived mesenchymal stem cells to treat KOA. Based on current estimates we expect our biomedicine business to generate revenues primarily from the development of therapies for the treatment of KOA within the next three to four years and HCC within the next three to five years.

Presently we have two autologous cell therapy candidates undergoing clinical trials in China, for the treatment of HCC and KOA. If and when these therapies gain regulatory approval in the PRC, we will be able to market and offer them for clinical use. Although our biomedicine business was very recently organized, our technologies have been in development for decades, and our focus is on the latest translational stages of product development, principally from the pre-clinical trial stage to regulatory approval and commercialization of new therapies.

Our strategy is to develop safe and effective cellular medicine therapies for indications that represent a large unmet need in China, based on technologies developed both in-house and obtained through licensing and collaboration arrangements with other companies. Our near term objective is to pursue successful clinical trials in China for our KOA application, followed by our HCC therapy and Asthma therapy. We intend to utilize our comprehensive cell platform to support multiple cell lines to pursue multiple therapies, both allogeneic and autologous. We intend to apply U.S. Standard Operating Procedures ("SOPs") and protocols while complying with Chinese regulations, while owning, developing and executing our own clinical trial protocols. We plan to establish domestic and international joint ventures or partnerships to set up cell laboratories and/or research facilities, acquire technology or in-license technology from outside of China, and build affiliations with hospitals, to develop a commercialization path for our therapies, once approved. We intend to use our first-mover advantage in China, against a backdrop of enhanced regulation by the central government, to differentiate ourselves from the competition and establish a leading position in the China cell therapeutic market. We also intend to out-license our technologies to interested parties.

CBMG initially plans to use its centralized manufacturing facility located in Shanghai to service multiple hospitals within 200 km of the facility. We aim to complete clinical trials for our KOA and HCC therapy candidates as soon as practicable. Our goal is to first obtain regulatory permission for commercial use of the therapies for the respective hospitals in which the trials are being conducted. CBMG plans to scale up its customer base by qualifying multiple additional hospitals for the post-trial use of therapies, once approved, by following regulatory guidelines. Based on current regulation and estimates we expect our biomedicine business to generate revenues primarily from the development of therapies for the treatment of KOA within the next three to four years and HCC within the next three to five years.

With the AG acquisition we intend to monetize AG's U.S. and Chinese intellectual property for immune cell therapy preparation methodologies and patient immunity assessment by engaging with prominent hospitals to conduct pre-clinical and clinical studies in specific cancer indications. The T Cell clonality analysis technology patent, together with AG' other know-how for immunity analysis, will enable the Company to establish an immunoassay platform that is crucial for immunity evaluation of patients with immune disorders as well as cancerous diseases that are undergoing therapy.

We believe that few competitors in China are as well-equipped as we are in the clinical trial development, diversified U.S. FDA protocol compliant manufacturing facilities, regulatory compliance and policy making participation, as well as a long-term presence in the U.S. with U.S.-based management and investor base.

We intend to continue our business development efforts by adding other proven domestic and international biotechnology partners to monetize the China health care market.

CBMG's Cellular Biomedicine Technology Platforms

In order to expedite fulfillment of patient treatment CBMG has been actively developing technologies and products with a strong intellectual properties protection, including haMPC, derived from fat tissue, for the treatment of KOA, Asthma, COPD and other indications. CBMG has also been actively engaging with world leading scientists and companies, to develop TC-DC therapy for the treatment of HCC. With the AG acquisition, we will continue to seek to empower hospitals' existing and new immune cell cancer therapy development programs that may help patients improve their quality of life and improve their survival rate. CBMG's acquisition of AG provides AG with an enlarged opportunity to expand the application of its cancer therapy-enabling technologies and to initiate clinical trials with leading cancer hospitals.

CBMG's proprietary and patent-protected production processes and clinical protocols enable us to produce raw material, manufacture cells, and conduct cell banking and distribution. Applying our proprietary intellectual property, we will be able to customize specialize formulations to address complex diseases and debilitating conditions.

CBMG has been developing disease-specific clinical treatment protocols. These protocols are designed for each of these proprietary cell lines to address patient-specific medical conditions. These protocols include medical assessment to qualify each patient for treatment, evaluation of each patient before and after a specific therapy, cell transplantation methodologies including dosage, frequency and the use of adjunct therapies, potential adverse effects and their proper management.

The protocols of haMPC therapy for KOA and TC-DC therapy for HCC have been approved by the Institutional Review Board of qualified hospitals for clinical trials. Once the trials are completed, the clinical data will be analyzed by a qualified third party statistician and reports will be filed by the hospitals to regulatory agencies for approval for use in treating patients.

CBMG has two cGMP facilities in Shanghai and Wuxi, China that meet international standards and have been certified by the CFDA. In any precision setting, it is vital that all controlled-environment equipment meet certain design standards. To achieve this goal, our Shanghai cleanroom facility underwent an ISO-14644 cleanroom certification. Additionally, our facilities have been certified to meet the ISO-9001 Quality Management standard by SGS Group, and accredited by the American National Bureau of Accreditation ("ANBA"). These cGMP facilities make CBMG one of the few companies in China with facilities that have been certified by US- and European-based, FDA authorized ISO accreditation institutions.

In total, our cGMP facilities have over 13,000 sq. ft. of cleanroom space with the capacity for eight independent cell production lines and a manufacturing capability for over 5,000 patients for autologous cell therapies per year. In addition, CBMG has two cell banks located in Shanghai and Wuxi facilities with a storage capacity to host more than 200,000 individual cell sources. There is also a 400 sq. ft. CFDA-standard products quality control center and an 800 sq. ft. laboratory with state of the art equipment. Our cell banking services include collection, processing and storage of cells from patients. This enables healthy individuals to donate and store their stem cells for future personal therapeutic use.

Most importantly, CBMG has a manufacturing and technology team with more than 30 years of relevant experience in China, EU, and the United States. All of these factors make CBMG a high quality cell products manufacturer in China.

Human Adipose-Derived Mesenchymal Progenitor Cells (haMPC)

Adult mesenchymal stem cells can currently be isolated from a variety of adult human sources, such as liver, bone marrow, and adipose (fat) tissue. The advantages in using adipose tissue (as opposed to bone marrow or blood) are that it is one of the richest sources of pluripotent cells in the body, the easy and repeatable access to fat via liposuction, and the simple cell isolation procedures that can begin to take place even on-site with minor equipment needs. The procedure we are testing for KOA involves extracting a very small amount of fat using a minimally invasive extraction process which takes up to 20 minutes, and leaves no scarring. The haMPC cells are then processed and isolated on site, and injected intra articularly into the knee joint with ultrasound guidance.

These haMPC cells are capable of differentiating into bone, cartilage, tendon, skeletal muscle, and fat under the right conditions. As such, haMPCs are an attractive focus for medical research and clinical development. Importantly, we believe both allogeneic and autologously sourced haMPCs may be used in the treatment of disease. Numerous studies have provided preclinical data that support the safety and efficacy of allogeneic and autologously derived haMPC, offering a choice for those where factors such as donor age and health are an issue.

Additionally, certain disease treatment plans call for an initial infusion of these cells in the form of SVF, an initial form of cell isolation that can be completed and injected within ninety minutes of receiving lipoaspirate. The therapeutic potential conferred by the cocktail of ingredients present in the SVF is also evident, as it is a rich source for preadipocytes, mesenchymal stem cells, endothelial progenitor cells, T regulatory cells and anti-inflammatory macrophages.

Immune Cell Therapy, Adoptive T cell

Adoptive T cell therapy for cancer is a form of transfusion therapy consisting of the infusion of various mature T cell subsets with the goal of eliminating a tumor and preventing its recurrence. In cases such as cancer, where the disease is unique to the individual, the adoptive T cell therapy is a personalized treatment.

We believe that an increasing portion of healthcare spending both in China and worldwide will be directed to immune cell therapies, driven by an aging population, and because immune cell therapy treatments could become a safe, effective, and cost-effective method for treating millions of cancer patients.

Cancer diseases are major threats to public health and the solvency of health systems worldwide. Current treatments for these diseases cannot meet medical needs. Immune cell therapy is a new technology that has the potential to alleviate much of the burden of these chronic and degenerative diseases in a cost-effective manner.

Tumor Cell Specific Dendritic Cells (TC-DC)

Recent scientific findings indicate the presence of special cells in tumors that are responsible for cancer metastases and relapse. Referred to as “cancer stem cells”, these cells make up only a small portion of the tumor mass. The central concept behind TC-DC therapy is to immunize against these cells. TC-DC therapy takes a sample of the patient’s own purified and irradiated cancer cells and combines them with specialized immune cells, thereby ‘educating’ the immune cells to destroy the cancer stem cells from which tumors arise. We believe the selective targeting of cells that drive tumor growth would allow for effective cancer treatment without the risks and side effects of current therapies that also destroy healthy cells in the body.

Our Targeted Indications and Potential Therapies

Knee Osteoarthritis (KOA)

We have completed the Phase I/IIa clinical trial for the treatment of KOA. Three-month Phase I/IIa follow up data revealed statistically significant improvement in KOA from the baseline in clinical scores for WOMAC, NRS-11, SF-36, and KSCRS knee osteoarthritis indices, showing significantly reduced knee pain, improved knee mobility, and prolonged walking distance. MRI examination revealed an increase in cartilage thickness as early as three months after the therapy. Data of three patients who have completed six-month follow-up has confirmed the three-month findings. With the last patient treated in Q4 2013, analysis of the full six-month follow-up data has revealed that patients have reported a significant improvement in mobility, flexibility and a decrease in pain. Additional studies are being carried out to confirm the cartilage regrowth. Enrollment of 48 patients required for our Phase IIb clinical trial was completed in June 2014.

Osteoarthritis is a degenerative disease of the joints. KOA is one of the most common types of osteoarthritis. Pathological manifestation of osteoarthritis is primarily local inflammation caused by immune response and subsequent damage of joints. Restoration of immune response and joint tissues are the objective of therapies.

According to International Journal of Rheumatic Diseases, 2011, 53% of KOA patients will degenerate to the point of disability. Conventional treatment usually involves invasive surgery with painful recovery and physical therapy. As drug-based methods of management are ineffective, the same journal estimates that some 1.5 million patients with this disability will degenerate to the point of requiring artificial joint replacement surgery every year. However, only 40,000 patients will actually be able to undergo replacement surgery, leaving the majority of patients to suffer from a life-long disability due to lack of effective treatment.

haMPCs are currently being considered as a new and effective treatment for osteoarthritis, with a huge potential market. Osteoarthritis is one of the ten most disabling diseases in developed countries. Worldwide estimates are that 9.6% of men and 18.0% of women aged over 60 years have symptomatic osteoarthritis. It is estimated that the global OA therapeutics market was worth $4.4 billion in 2010 and is forecast to grow at a compound annual growth rate ("CAGR") of 3.8% to reach $5.9 billion by 2018.

In order to bring haMPC-based KOA therapy to market, our market strategy is to: (a) establish regional laboratories that comply with cGMP standards in Shanghai and Beijing that meet Chinese regulatory approval; and (b) file joint applications with Class AAA hospitals to use haMPCs to treat KOA in a clinical trial setting.

Our competitors are pursuing treatments for osteoarthritis with knee cartilage implants. However, unlike their approach, our KOA therapy is not surgically invasive – it uses a small amount (30ml) of adipose tissue obtained via liposuction from the patient, which is cultured and re-injected into the patient. The injections are designed to induce the body's secretion of growth factors promoting immune response and regulation, and regrowth of cartilage. The down-regulation of the patient's immune response is aimed at reducing and controlling inflammation which is a central cause of KOA.

We believe our proprietary method, subsequent haMPC proliferation and processing know-how will enable haMPC therapy to be a low cost and relatively safe and effective treatment for KOA. Additionally, banked haMPCs can continue to be stored for additional use in the future.

Hepatocellular Carcinoma (HCC)

In January 2013, we commenced a Phase I clinical trial with PLA 85 hospital in Shanghai, for HCC therapy. Treatment for all the patients was completed in 2013 and the study revealed the TC-DC therapy to be safe. The purpose of this trial was to evaluate the safety of an autologous immune cell therapy in primary HCC patients following resection (surgical tumor removal) and Transarterial Chemo Embolization ("TACE") Therapy, a type of localized chemotherapy technique.

Recent scientific findings indicate that tumors contain specialized cells that allow for the generation of new tumors. Named cancer stem cells, these cells are responsible for both tumor metastases and recurrence. The central concept behind CBMG's technology is to immunize against these cancer stem cells.

A number of our competitors are developing cancer treatment therapies, such as Promethera Biosciences of Belgium, and Shenzhen Beike Biotechnology Co. Ltd. However unlike our competitors, the therapies we are researching utilize the liver cancer stem cells as antigen source – these proliferating, self-renewing liver cancer stem cells provide comprehensive source of tumor antigens, without contamination from extraneous cells. The patient's immune cells are isolated and trained to recognize, attack and eliminate the cancer cells.

TC-DC therapy was developed by Dr. Robert Dillman through more than 20 years of clinical research at the Hoag Cancer Center, California. The core idea of the TC-DC technique is to activate a patient's immune system by exposure of cancer stem cell antigens to the key antigen presenting cells, dendritic cells. In order to expose cancer stem cell antigens effectively, cancer tissue from patients is digested and its cancer stem cell is expanded and co-cultured with the patient's own dendritic cells in vitro. Together with GM-CSF the patient's dendritic cells are loaded with fixed cancer stem cells and are administered back to the patient in order to boost the patient's immune system to recognize cancer stem cell antigens and then effectively eliminate them.

The safety and efficacy profiles of TC-DC are outstanding based on Phase II clinical trials of TC-DC therapy for metastatic melanoma (see Dillman, R.O., et al. 2009. Phase II Trial of Dendritic Cells Loaded with Antigens from Self-Renewing, Proliferating Autologous Tumor Cells as Patient-Specific Antitumor Vaccines in Patients with Metastatic Melanoma: Final Report. Cancer Biotherapy and Radiopharmaceuticals, Volume 24 Number 3.) The most recent Phase II clinical trial of metastatic melanoma has shown five-year survival rate of 54%, and this therapy has been shown to significantly reduce the rate of tumor recurrence and metastasis, improve patient longevity and quality of life. CSC has filed, and the FDA has accepted, its Phase III clinical trial of Metastatic Melanoma using TC-DC technology. In addition, CSC has received U.S. FDA approval of Phase II TC-DC Clinical Trial for Ovarian Cancer.

According to existing laws in the PRC, TC-DC therapy is considered a Category III medical technology, which must be managed and approved by the PRC's Ministry of Health ("MOH"). The current market strategy is for CBMG to partner with Class-AAA hospitals to set up either on-site or localized cGMP standard cell biology laboratories, and apply to MOH for Phase I/II clinical trials to use TC-DC therapy for liver cancer. Upon completion of these clinical trials, partnered Class-AAA hospitals will jointly file applications to MOH for a license to treat liver cancer using TC-DC technology. For hospitals that have received a license, CBMG will provide liver cancer targeted DC cells, with the hospital charging appropriate cell therapy fees to the patient as determined by local government guidelines. We expect to derive revenues from service fees to hospitals.

One of the primary difficulties in administering effective cancer therapy is in the uniqueness of the disease – no two cancers are the same. Importantly, CBMG sources both immune and cancer cells directly from the patient, and our completely autologous approach to cancer therapy means that each dose is specific to each individual, an ultimate personalized therapeutic approach.

After receiving resected tumor tissue at our lab, the first step is to perform an enzyme digest that breaks down the solid tumor into individual cells. These cells then enter a process and purification stage, where contaminating cells are eliminated. The next step is to establish a cell line in the expansion phase, which typically takes 6 weeks, depending on the quality and proliferation rate of the sample. Also during this stage, the patient undergoes a leukapheresis procedure in which circulating white blood cells are extracted, and further processed into dendritic cells in the lab. In the last step, the patient's dendritic cells are combined with irradiated cancer stem cells and thus learn the particular cancer's "signature", and finally these dendritic cells are delivered over a series of subcutaneous injections.

Adoptive T-Cell

Our strategy is for CBMG, through AG, to become an immune cell business leader in the China cancer therapy market and specialty pharmaceutical market by utilizing CBMG's NASDAQ listing platform to consolidate key China immune cell technology leaders with fortified intellectual property and ramp up revenue with first mover's advantage in a safe and efficient manner. The Company plans to accelerate cancer trials by using the knowledge and experience gained from the Company's ongoing KOA trials. China has a bifurcated cell regulatory pathway, which is different than the singular path in the United States. Immune cell therapy is treated as Class III medical technology and requires a smaller-scale trial and shorter trial period. By applying U.S. SOP and protocols and following authorized treatment plans in China, we believe we are differentiated from our competition as we believe we have first mover's advantage and a fortified barrier to entry.

CONSULTING SERVICES BUSINESS

Cellular Biomedicine Group, Inc., a Delaware corporation (formerly known as EastBridge Investment Group Corporation), was originally incorporated in the State of Arizona on June 25, 2001 under the name ATC Technology Corporation. ATC Technology Corporation changed its corporate name to EastBridge Investment Group Corporation in September 2005 and shifted its business to providing finance-related services in Asia, with a focus on China. On February 5, 2013, the Company formed a new Delaware subsidiary named EastBridge Investment Corp. ("EastBridge Sub"). Pursuant to a Contribution Agreement by and between the Company and EastBridge Sub dated February 5, 2013, the Company contributed all assets and liabilities related to its consulting services business, and all related business and operations, to its newly formed subsidiary, EastBridge Investment Corp.

On June 23, 2014, our management with Board of Directors approval, agreed to discontinue the consulting segment of the Company's business. As of September 30, 2014, the majority of the consulting segment has been concluded. We will wait to liquidate the client shares still held until such future time that it is beneficial.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Our management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The following summarizes critical estimates made by management in the preparation of the consolidated financial statements.

Stock-Based Compensation

We periodically use stock-based awards, consisting of shares of common stock or stock options, to compensate certain officers and consultants. Awards are expensed on a straight line basis over the requisite service period based on the grant date fair value, net of estimated forfeitures, if any.

Options - The compensation cost that has been charged against income related to stock-based compensation for the three and nine months ended September 30, 2014 was $377,870 and $990,492, respectively, while for the three and nine months ended September 30, 2013 expense was $191,904 and $385,645, respectively, and is included in general and administrative expense in our Condensed Consolidated Statements of Operations. As of September 30, 2014, there was $7,867,009 of total unrecognized compensation cost related to non-vested stock option awards. That cost is expected to be recognized over a weighted-average period of 2.06 years for the stock option awards.

Restricted shares – The compensation expense that has been charged against income related to stock-based compensation for the three and nine months ended September 30, 2014 was $22,153 and $85,671, respectively, while for the three and nine months ended September 30, 2013 expense was $180,084 and $1,159,986, respectively, and is included in general and administrative expense in our Condensed Consolidated Statement of Operations and Comprehensive Loss. As of September 30, 2014, a total of 13,726 restricted shares awards have been granted that remain unearned. As of September 30, 2014, total unrecognized compensation cost related to unvested awards was $118,469 for which the weighted average period over which such compensation cost is to be recognized is 1.01 years.

Revenue Recognition

We utilize the guidance set forth in the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 104, regarding the recognition, presentation and disclosure of revenue in financial statements.

We engage in listing contracts with our clients which provide for the payment of fees, either in cash or equity, upon the achievement of certain milestones by our clients with our assistance, including the successful completion of a financial statement audit, the successful listing on a national stock exchange and the maintenance of ongoing Exchange Act registration requirements with the Securities and Exchange Commission. In some instances, payment may be made in advance of performance; however, such payment is often refundable in the event that milestones are not reached. We recognize revenue on a systematic basis as milestones are reached in accordance with FASB’s ASC 605 Revenue Recognition Update No. 2009-13. Such guidance stipulates that revenue be recognized for individual elements in a multiple deliverable arrangement using the relative selling price method. We rely on internal estimates of the relative selling price of each element as objective third-party evidence is unattainable.

For its Biomedicine segment, the Company recognizes revenue when pervasive evidence of an arrangement exists, the price is fixed and determinable, collection is reasonably assured and delivery of products or services has been rendered.

Income Taxes

Income taxes are accounted for using the asset and liability method as prescribed by ASC 740 Income Taxes. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance would be provided for those deferred tax assets for which if it is more likely

than not that the related benefit will not be realized.

A full valuation allowance has been established against the majority of net deferred tax assets as of September 30, 2014 based on estimates of recoverability. While we have optimistic plans for our business strategy, we determined that such a valuation allowance was necessary given the current and expected near term losses and the uncertainty with respect to our ability to generate sufficient profits from our business model.

Results of Operations

Below is a discussion of the results of our operations for the three months ended September 30, 2014 and 2013. These results are not necessarily indicative of result that may be expected in any future period. Our prospects should be considered in light of the risks, expenses and difficulties that we may encounter. We may not be successful in addressing these risks and difficulties.

Comparison of Three Months Ended September 30, 2014 to Three Months Ended September 30, 2013

Although the descriptions in the results of operations below reflect our operating results as set forth in our Condensed Consolidated Statement of Operations and Comprehensive Loss filed herewith, prior periods being presented are reflective of the reclassifications as required for discontinued operations, in addition we are presenting consolidated pro forma information below to reflect the impacts of the business combination with AG as if such transaction had occurred at the beginning of the earliest period presented.

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	CBMG As stated	Agreen Pro forma Adjustment	Pro forma Consolidated	CBMG As stated	Agreen Pro forma Adjustment	Pro forma Consolidated
Net sales and revenue						
Biomedical	$ -	$ 419,745	$ 419,745	$ 95,365	$ 457,360	$ 552,725
Total sales and revenue	-	419,745	419,745	95,365	457,360	552,725
Operating expenses:						
Cost of sales	-	394,636	394,636	158,280	310,039	468,319
General and administrative	2,021,382	90,886	2,112,268	1,398,809	100,416	1,499,225
Selling and marketing	21,311	5,438	26,749	8,080	-	8,080
Research and development	737,754	45,675	783,429	196,524	31,692	228,216
Total operating expenses	2,780,447	536,635	3,317,082	1,761,693	442,147	2,203,840
Operating loss	(2,780,447)	(116,890)	(2,897,337)	(1,666,328)	15,213	(1,651,115)
Other income (expense)						
Interest income	698	175	873	207	120	327
Other expense	(260)	(49)	(309)	(16,829)	(57)	(16,886)
Total other income (expense)	438	126	564	(16,622)	63	(16,559)
Loss from continuing operations before taxes	(2,780,009)	(116,764)	(2,896,773)	(1,682,950)	15,276	(1,667,674)

Income tax provision	-	-	-	-	-	-
Loss from Continuing operations	(2,780,009)	(116,764)	(2,896,773)	(1,682,950)	15,276	(1,667,674)
Loss from discontinued Consulting segement	(43,271)	-	(43,271)	2,646,337		2,646,337
Income tax benefit	-	-	-	(386,494)	-	(386,494)
Loss on discontiued operations	(43,271)	-	(43,271)	2,259,843	-	2,259,843
Net loss	$ (2,823,280)	$ (116,764)	$ (2,940,044)	$ 576,893	$ 15,276	$ 592,169
Other comprehensive loss:						
Cumulative translation adjustment	(1,838)	-	(1,838)	24,269	(863)	23,406
Unrecognized loss on investments	(1,005,455)	-	(1,005,455)	(210,420)	-	(210,420)
Comprehensive net loss	$ (3,830,573)	$ (116,764)	$ (3,947,337)	$ 390,742	$ 14,413	$ 405,155
Earnings per share:						
Basic	$ (0.31)		$ (0.30)	$ 0.09		$ 0.09
Diluted	$ (0.31)		$ (0.30)	$ 0.09		$ 0.08
Weighted average common shares outstanding:						
Basic	9,131,576	720,760	9,852,336	6,155,203	753,522	6,908,725
Diluted	9,131,576	720,760	9,852,336	6,229,825	753,522	6,983,347

Results of Operations

Net Revenues

	Net Revenues			
	2014	2013	Change	Percent
Three months ended September 30,	$-	$95,365	$(95,365)	(100) %

No revenue was recorded for the three months ended September 30, 2014. In the three months ended September 30, 2013, we sold units of the A-StromalTM kits at approximately $3,300 USD per unit. Based on current estimates we expect our biomedicine business to generate immediate revenues from our acquisition of AG and future revenues primarily from the development of therapies for the treatment of KOA after we successfully complete all of the requisite clinical trials.

Cost of Sales

	Cost of Sales				
	2014	2013	Change	Percent	
Three months ended September 30,	$-	$158,280	$(158,280)	(100)	%

The decrease in cost of sales was attributable to the A-StromalTM kits sold in the three months ended September 30, 2013. The Biomedicine segment is still in the development phase and did not have any revenue and therefore did not have any cost of sales in the three months ended September 30, 2014.

General and Administrative Expenses

	General & Administrative Expenses				
	2014	2013	Change	Percent	
Three months ended September 30,	$2,021,382	$1,398,809	$622,573	45	%

General and administrative expenses increased due primarily to the following:

Increased expenses in 2014 associated with increased corporate activities related the management and the development of our biomedicine business, including:

- An increase in payroll expenses of $449,000;
- An increase in travel expense of $199,000;
- An increase in stock-based compensation expense of $168,000;
- An increase in legal, professional and accounting services of $57,000;
- An increase in investor relations expense of $103,000; partially offset by
- An decrease in depreciation expense of $155,000;
- An decrease in other expenses of $198,000;

Sales and Marketing Expenses

	Sales & Marketing Expenses				
	2014	2013	Change	Percent	
Three months ended September 30,	$21,311	$8,080	$13,231	164	%

Sales and marketing expenses increased by approximately $13,000 in the three months ended September 30, 2014 as compared to the three months ended September 30, 2013, as a result of an increase in payroll expenses by approximately $11,000 and by an increase in travel, promotion, insurance and entertainment expenses of approximately $2,000.

Research and Development Expenses

	Research and Development Expenses				
	2014	2013	Change	Percent	
Three months ended September 30,	$737,754	$196,524	$541,230	275	%

Research and development costs increased by approximately $541,000 in the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 due primarily to an increase in experiment fees of approximately $469,000 and other research and development costs of approximately $72,000. In 2014 we have

undertaken significant activities surrounding the development of our biomedicine intellectual property, including the implementation of Phase IIb clinical trials for KOA, which began recruiting patients in the first quarter of 2014.

Operating Loss

	Operating Loss				
	2014	2013	Change	Percent	
Three months ended September 30,	$(2,780,447)	$(1,666,328)	$(1,114,119)	67	%

The increase in the operating loss for the three months ended September 30, 2014 as compared to the same period in 2013 is primarily due to changes in revenues, research and development expenses and general and administrative expenses, each of which is described above.

Total Other Income (Expense)

	Total Other Income (Expense)				
	2014	2013	Change	Percent	
Three months ended September 30,	$438	$(16,622)	$17,060	(103)	%

Other income (expense) consists primarily of rental subsidy income and foreign exchange gains and losses on transactions in our biomedicine segment.

Income Tax Benefit (Provision)

	Income Tax Benefit (Provision)				
	2014	2013	Change	Percent	
Three months ended September 30,	$-	$-	$-	0	%

While we believe we have prudent plans for our business strategy, we determined that a valuation allowance was necessary given the current and expected near term losses and the uncertainty with respect to our ability to generate sufficient profits from our business model. Therefore, we established a valuation allowance for all deferred tax assets and we incurred no tax benefit for the three months ended September 30, 2014 and 2013.

Loss from Continuing Operations

	Loss from Continuing Operations				
	2014	2013	Change	Percent	
Three months ended September 30,	$(2,780,009)	$(1,682,950)	$(1,097,059)	65	%

Changes in loss from continuing operations are primarily attributable to changes in operating loss as described above.

Income (Loss) from Discontinued Operations

	Income (Loss) from Discontinued Operations				
	2014	2013	Change	Percent	
Three months ended September 30,	$(43,271)	$2,259,843	$(2,303,114)	(102)	%

Change in loss from discontinued operations is primarily attributable to our decision to terminate this Consulting business segment, as no meaningful revenues were generated in 2014.

Net Income (Loss)

	Net Income (Loss)				
	2014	2013	Change	Percent	
Three months ended September 30,	$(2,823,280)	$576,893	$(3,400,173)	(589)	%

Changes in net loss are primarily attributable to changes in operations of our biomedicine segment and the discontinued consulting segment, each of which is described above.

Comprehensive Net Income (Loss)

	Comprehensive Net Income (Loss)				
	2014	2013	Change	Percent	
Three months ended September 30,	$(3,830,573)	$390,742	$(4,221,315)	(1080)	%

For the three months ended September 30, 2014, we recorded an unrecognized loss on investments of approximately $1,005,000 associated with the fair value of client shares held, in connection with our discontinued consulting segment and foreign currency translation impacts of approximately $2,000. For the three months ended September 30, 2013, we recognized approximately $210,000 of unrecognized losses on investments partially offset by foreign currency translation impacts of approximately $24,000.

Comparison of Nine Months Ended September 30, 2014 to Nine Months Ended September 30, 2013

Below is a discussion of the results of our operations for the nine months ended September 30, 2014 and 2013. These results are not necessarily indicative of result that may be expected in any future period. Our prospects should be considered in light of the risks, expenses
and difficulties that we may encounter. We may not be successful in addressing these risks and difficulties.

Although the descriptions in the results of operations below reflect our operating results as set forth in our Condensed Consolidated Statement of Operations and Comprehensive Loss filed herewith, prior periods being presented are reflective of the reclassifications as required for discontinued operations.

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	CBMG As stated	Agreen Pro forma Adjustment	Pro forma Consolidated	CBMG As stated	Agreen Pro forma Adjustment	Pro forma Consolidated
Net sales and revenue						
Biomedical	$179,120	$1,198,414	$1,377,534	$95,365	$750,307	$845,672
Total sales and revenue	179,120	1,198,414	1,377,534	95,365	750,307	845,672
Operating expenses:						
Cost of sales	92,553	880,797	973,350	158,280	631,327	789,607
General and administrative	5,123,210	245,911	5,369,121	7,157,211	214,870	7,372,081
Selling and marketing	86,806	6,351	93,157	60,310	-	60,310
Research and development	1,878,731	113,635	1,992,366	1,316,305	149,771	1,466,076
Total operating expenses	7,181,300	1,246,694	8,427,994	8,692,106	995,968	9,688,074
Operating income (loss)	(7,002,180)	(48,280)	(7,050,460)	(8,596,741)	(245,661)	(8,842,402)
Other income (expense)						
Interest income	1,263	318	1,581	1,079	250	1,329
Other expense	94,357	(147)	94,210	(289)	(13,835)	(14,124)
Total other income (expense)	95,620	171	95,791	790	(13,585)	(12,795)
Loss from continuing operations before taxes	(6,906,560)	(48,109)	(6,954,669)	(8,595,951)	(259,246)	(8,855,197)
Income tax provision	-	-	-	-	-	-
Loss from Continuing operations	(6,906,560)	(48,109)	(6,954,669)	(8,595,951)	(259,246)	(8,855,197)
Loss from discontinued Consulting segement	(3,037,514)	-	(3,037,514)	1,638,777		1,638,777
Income tax benefit	-	-	-	(386,484)	-	(386,494)
Loss on discontiued operations	(3,037,514)	-	(3,037,514)	1,252,283	-	1,252,283
Net income (loss)	$(9,944,074)	$(48,109)	$(9,992,183)	$(7,343,668)	$(259,246)	$(7,602,914)
Other comprehensive income (loss):						
Cumulative translation adjustment	(8,673)	963	(7,710)	$56,228	(5,929)	50,299
Unrecognized loss on investments	2,515,894	-	2,515,894	(944,993)	-	(944,993)
Comprehensive net income (loss)	$(7,436,853)	$(47,146)	$(7,483,999)	$(8,232,433)	$(265,175)	$(8,497,608)
Basic	$(1.22)		$(1.12)	$(1.33)		$(1.21)
Diluted	$(1.22)		$(1.12)	$(1.33)		$(1.21)

Weighted average common shares outstanding:						
Basic	8,155,213	742,481	8,897,694	5,519,634	753,522	6,273,156
Diluted	8,155,213	742,481	8,897,694	5,519,634	753,522	6,273,156

Results of Operations

Net Revenues

	Net Revenues				
	2014	2013	Change	Percent	
Nine months ended September 30,	$179,120	$95,365	$83,755	88	%

In the nine months ended September 30, 2014 and 2013, we sold units of the A-StromalTM kits at approximately $3,250USD per unit. Based on current estimates we expect our biomedicine business to generate immediate revenues from our acquisition of AG and future revenues primarily from the development of therapies for the treatment of KOA after we successfully complete all of the requisite clinical trials.

Cost of Sales

	Cost of Sales				
	2014	2013	Change	Percent	
Nine months ended September 30,	$92,553	$158,280	$(65,727)	(42)	%

The decrease in cost of sales during the nine months ended September 30, 2014 was attributable to the improved efficiencies in the production of A-StromalTM kits following their roll-out during the nine months ended September 30, 2013. The Biomedicine segment is still in the development phase.

General and Administrative Expenses

	General and Administrative Expenses				
	2014	2013	Change	Percent	
Nine months ended September 30,	$5,123,210	$7,157,211	$(2,034,001)	(28)	%

General and administrative expenses decreased due primarily to the following:

Decreased expenses in 2014 associated with decreased costs relating to our Merger in 2013, including:

- A decrease in investor relations expense of $1,543,000;
- A decrease in legal, professional and accounting services of $704,000;
- A decrease in stock-based compensation expense of $212,000; partially offset by,
- An increase in payroll expenses of $261,000;
- An increase in travel expense of $145,000; and
- An increase in other expenses of $19,000.

Sales and Marketing Expenses

	Sales and Marketing Expenses				
	2014	2013	Change	Percent	
Nine months ended September 30,	$86,806	$60,310	$26,496	44	%

Sales and marketing expenses increased by approximately $26,000 in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013, as a result of an increase in payroll expenses and travel expenses.

Research and Development Expenses

	Research and Development Expenses				
	2014	2013	Change	Percent	
Nine months ended September 30,	$1,878,731	$1,316,305	$562,426	43	%

Research and development costs increased by approximately $562,000 in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 due primarily to an increase in the experiment and testing fees of approximately $452,000 and other research and development costs of approximately $110,000. In 2014 we have undertaken significant activities surrounding the development of our biomedicine intellectual property, including the implementation of Phase IIb clinical trials for KOA, which began recruiting patients in the first quarter of 2014.

Operating Loss

	Operating Loss				
	2014	2013	Change	Percent	
Nine months ended September 30,	$(7,002,180)	$(8,596,741)	$1,594,561	(19)	%

The decrease in the operating loss for the nine months ended September 30, 2014 as compared to the same period in 2013 is primarily due to changes in revenues, sales and marketing expenses and general and administrative expenses, each of which is described above.

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Total Other Income

	Total Other Income				
	2014	2013	Change	Percent	
Nine months ended September 30,	$95,620	$790	$94,830	12004	%

Other income (expense) consists primarily of rental subsidy income and foreign exchange gains and losses on transactions in our biomedicine segment.

Income Tax Benefit (Provision)

	Income Tax Benefit (Provision)				
	2014	2013	Change	Percent	
Nine months ended September 30,	$-	$-	$-	0	%

While we believe we have prudent plans for our business strategy, we determined that a valuation allowance was necessary given the current and expected near term losses and the uncertainty with respect to our ability to generate sufficient profits from our business model. Therefore, with the exception of those acquired in our acquisition of AG, we established a valuation allowance for all deferred tax assets.

Loss from Continuing Operations

	Loss from Continuing Operations				
	2014	2013	Change	Percent	
Nine months ended September 30,	$(6,906,560)	$ (8,595,951)	$ 1,689,391	(20)	%

Changes in loss from continuing operations are primarily attributable to changes in operating loss as described above.

Loss from Discontinued Operations

	Loss from Discontinued Operations				
	2014	2013	Change	Percent	
Nine months ended September 30,	$(3,037,514)	$1,252,283	$(4,289,797)	(343)	%

Change in loss from discontinued operations is primarily attributable to the discontinued Consulting segment, including impairment expense of approximately $3,300,000 and a onetime accrual of $887,000 of shutdown costs.

Net Loss

	Net Loss				
	2014	2013	Change	Percent	
Nine months ended September 30,	$(9,944,074)	$(7,343,668)	$(2,600,406)	(35)	%

Changes in net loss are primarily attributable to changes in operating loss as described above.

Comprehensive Net Income (Loss)

	Comprehensive Net Income (Loss)			
	2014	2013	Change	Percent

Nine months ended September 30,	$(7,436,853)	$(8,232,433)	$795,580	(10)	%

For the nine months ended September 30, 2014, we recorded an unrecognized gain on investments of approximately $2,516,000 associated with the fair value of client shares held, in connection with our discontinued consulting segment partially offset by foreign currency translation impacts of approximately $9,000. For the nine months ended September 30, 2013, we had approximately $945,000 unrecognized losses on investments partially offset by foreign currency translation impacts of approximately $56,000.

Liquidity and Capital Resources

We had working capital of $6,229,840 as of September 30, 2014 compared to $5,373,355 as of December 31, 2013. Our cash position increased to $9,815,962 at September 30, 2014 compared to $7,175,215 at December 31, 2013, as we had an increase in cash generated from financing activities due to private placement financings in the nine months ending September 30, 2014 for aggregate proceeds of approximately $11,122,000, partially offset by an increase in cash used in operating activities.

Net cash provided by or used in operating, investing and financing activities from continuing operations were as follows:

Net cash used in operating activities was approximately $8,127,000 and $7,126,000 for the nine months ended September 30, 2014 and 2013, respectively. The following table reconciles net loss to net cash used in operating activities:

For the nine months ended September 30,	2014	2013	Change
Net Loss	$(9,944,074)	$(7,343,668)	$(2,600,406)
Non Cash Transactions	3,605,703	652,521	2,953,182
Changes in operating assets, net	(1,788,735)	(435,130)	(1,353,605)
Net Cash used in operating activities	$(8,127,106)	$(7,126,277)	$(1,000,829)

The 2014 change in operating assets and liabilities was primarily due to an increase in long-term prepaid expenses and other assets partially offset by increased accrued expenses while the change in 2013 was primarily due to an increase in accrued expenses partially offset by a decrease in other current liability expenses.

Net cash (used in) provided by investing activities was approximately $(322,000) and $2,423,000 in the nine months ended September 30, 2014 and 2013, respectively. The amounts in 2013 were the result of acquisition of net assets of EastBridge.

Cash provided by financing activities was approximately $11,088,000 and $4,003,000 in the ninw months ended September 30, 2014 and 2013, respectively. The amounts in 2014 were directly attributable to the proceeds received from the issuance of common stock.

Liquidity and Capital Requirements Outlook

We will require approximately $17.1 million in cash to operate as planned until the end of 2015. Of this amount, approximately $2.9 million will be used to pay the remaining cash consideration for the acquisition of AG. Approximately $6.2 million will be used to operate our facilities and offices, including but not limited to payroll expenses, rent and other operating costs, and $7.8 million to fund our research and development as we continue to develop our products through the clinical study process. We anticipate $1.1 million of marketing expense and $2 million capital expenditure will be needed in the immune therapy business during 2015 to expedite the healthcare centers and there will be $2.9 million profits from immune therapy business.

We expect to rely on current cash balances, the execution of existing option agreements and the sale of marketable securities that we hold (and that we received as payment for consulting services) to provide for these capital requirements. We intend to seek external financing to fund our operations and growth. As of the date of this report, management anticipates that our current cash resources are sufficient to fund our operations in accordance with our plans until the end of 2015.

Our medium to long term capital needs involve the further development of our biomedicine business, and may include, at management's discretion, new clinical trials for other indications, strategic partnerships, joint ventures, acquisitions, acquisition of licensing rights from new partners or changes in the structure of such joint venture, and/or expansion of our research and development programs. Furthermore, as our therapies pass through the clinical trial process and if they gain regulatory approval, we expect to expend significant resources on sales and marketing of our future products, services and therapies.

In order to finance our medium to long term plans, we intend to rely upon external financing. This financing may be in the form of equity and or debt, in private placements and/or public offerings, or arrangements with private lenders. Due to our short operating history and our early stage of development, particularly in our biomedicine business, we may find it challenging to raise capital on terms that are acceptable to us, or at all. These circumstances raise substantial doubt about our ability to continue as a going concern. Furthermore our negotiating position in the capital raising process may worsen as we consume our existing resources. Investor interest in a company such as ours is dependent on a wide array of factors, including the state of regulation of our industry in China (e.g. the policies of MOH and the CFDA), the U.S. and other countries, political headwinds affecting our industry, the investment climate for issuers involved in businesses located or conducted within China, the risks associated with our corporate structure, risks relating to our joint venture partners, licensed intellectual property, as well as the condition of the global economy and financial markets in general. Additional equity financing may be dilutive to our stockholders; debt financing, if available, may involve significant cash payment obligations and covenants that restrict our ability to operate as a business; our stock price may not reach levels necessary to induce option or warrant exercises; and asset sales may not be possible on terms we consider acceptable. If we are unable to raise the capital necessary to meet our medium- and long-term liquidity needs, we may have to delay or discontinue certain clinical trials, the licensing, acquisition and/or development of cell therapy technologies, and/or the expansion of our biomedicine business; or we may have to raise funds on terms that we consider unfavorable. For a more complete discussion of risks that our business is subject to, refer to the “Risk Factors” section Item 1A of Part II below.

Liquidity

To support our liquidity needs for 2013 and the nine months ended September 30, 2014, we utilized our then-current cash reserves and raised additional capital through (i) the completion of our 2013 Q4 initiated private placement of common stock with proceeds of $1.3 million and (ii) a private placement of common stock completed in the second quarter of 2014 with proceeds of $10 million.

In the near term, we continue to rely on our current cash reserves to fund our operating activities. We will seek a plan of liquidation of the portfolio securities that are held by EastBridge Sub, and may decide to sell marketable securities from our portfolio from time to time subject to securities regulatory constraints, if and when market conditions are considered to be favorable. We might also choose to execute the options of 1,000,000 shares which concluded with investors (the form of which is attached to the 8-K filed on June 23, 2014, as Exhibit 10.1) to finance our operation when necessary.

Off Balance Sheet Transactions

CBMG does not have any off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company we are not required to provide this information.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Due to previously identified deficiencies in our internal controls over financial reporting, our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has concluded that, as of September 30, 2014, our disclosure controls and procedures were not effective.

As indicated in our Form 10-K as of and for the year ended December 31, 2013, as filed with the SEC on April 15, 2014, we have made improvements in our internal control structure in an attempt to remediate these deficiencies. However, until such time that we have updated our annual evaluation of internal controls over financial reporting, our disclosure controls are assumed to remain ineffective.

Changes in Internal Control over Financial Reporting

During the nine months ended September 30, 2014, there was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We have begun remediation efforts to address our previously identified control weaknesses and, accordingly, we expect to enact changes to our internal controls over financial reporting during the second half of 2014.

Our Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives. Furthermore, smaller reporting companies face additional limitations. Smaller reporting companies employ fewer individuals and find it difficult to properly segregate duties. Often, one or two individuals control every aspect of the Company's operation and are in a position to override any system of internal control. Additionally, smaller reporting companies tend to utilize general accounting software packages that lack a rigorous set of software controls.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are currently not involved in any litigation that we believe could have a materially adverse effect on our financial condition or results of operations. Except for an outstanding audit by the Internal Revenue Service related to employment tax liability for the 2006-2008 tax years as disclosed in our prior filings, there is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the management of CBMG or any of its subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our company's or our company's subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

All costs have been associated with the IRS audit have recorded and we are just waiting for confirmation that the audit is closed.

ITEM 1A. RISK FACTORS

RISKS RELATED TO OUR COMPANY

We have a limited operating history and expect significant operating losses for the next few years.

We are a company with a limited operating history and have incurred substantial losses and negative cash flow from operations through the three months ended September 30, 2014. Our cash flow from operations may not be consistent from period to period, our biomedicine business has not yet generated any revenue, and we may incur losses and negative cash flow in future periods, particularly within the next several years.

Our biomedicine product development programs are based on novel technologies and are inherently risky.

We are subject to the risks of failure inherent in the development of products based on new biomedical technologies. The novel nature of these cell-based therapies creates significant challenges in regard to product development and optimization, manufacturing, government regulation, third party reimbursement, and market acceptance, including the challenges of:

Educating medical personnel regarding the application protocol;

Sourcing clinical and commercial supplies for the materials used to manufacture and process our Tcm product candidates;

Developing a consistent and reliable process, while limiting contamination risks regarding the application protocol;

Conditioning patients with chemotherapy in conjunction with delivering Tcm treatment, which may increase the risk of adverse side effects;

Obtaining regulatory approval, as the Chinese Food and Drug Administration, or CFDA, and other regulatory authorities have limited experience with commercial development

of cell-based therapies, and therefore the pathway to regulatory approval may be more complex and require more time than we anticipate. ; and

- Establishing sales and marketing capabilities upon obtaining any regulatory approval to gain market acceptance of a novel therapy.

These challenges may prevent us from developing and commercializing products on a timely or profitable basis or at all.

We may be unable to obtain or maintain patent protection for our products and product candidates, which could have a material adverse effect on our business.

Our commercial success will depend, in part, on obtaining and maintaining patent protection for new technologies, product candidates, products and processes and successfully defending such patents against third party challenges. To that end, we file patent applications, and have been issued patents, that are intended to cover certain methods and uses relating to stem cells and immune cell therapies.

The patent positions of biotechnology companies can be highly uncertain and involve complex legal, scientific and factual questions and recent court decisions have introduced significant uncertainty regarding the strength of patents in the industry. Moreover, the legal systems of some countries do not favor the aggressive enforcement of patents and may not protect our intellectual property rights to the same extent as they would, for instance, under the laws of the United States. Any of the issued patents we own or license may be challenged by third parties and held to be invalid, unenforceable or with a narrower or different scope of coverage that what we currently believe, effectively reducing or eliminating protection we believed we had against competitors with similar products or technologies. If we ultimately engage in and lose any such patent disputes, we could be subject to competition and/or significant liabilities, we could be required to enter into third party licenses or we could be required to cease using the disputed technology or product. In addition, even if such licenses are available, the terms of any license requested by a third party could be unacceptable to us.

The claims of any current or future patents that may issue or be licensed to us may not contain claims that are sufficiently broad to prevent others from utilizing the covered technologies and thus may provide us with little commercial protection against competing products. Consequently, our competitors may independently develop competing products that do not infringe our patents or other intellectual property. To the extent a competitor can develop similar products using a different chemistry, our patents and patent applications may not prevent others from directly competing with us. Product development and approval timelines for certain products and therapies in our industry can require a significant amount of time (i.e. many years). As such, it is possible that any patents that may cover an approved product or therapy may have expired at the time of commercialization or only have a short remaining period of exclusivity, thereby reducing the commercial advantages of the patent. In such case, we would then rely solely on other forms of exclusivity which may provide less protection to our competitive position.

Litigation relating to intellectual property is expensive, time consuming and uncertain, and we may be unsuccessful in our efforts to protect against infringement by third parties or defend ourselves against claims of infringement.

To protect our intellectual property, we may initiate litigation or other proceedings. In general, intellectual property litigation is costly, time-consuming, diverts the attention of management and technical personnel and could result in substantial uncertainty regarding our future viability, even if we ultimately prevail. Some of our competitors may be able to sustain the costs of such litigation or other proceedings more effectively than can we because of their substantially greater financial resources. The loss or narrowing of our intellectual property protection, the inability to secure or enforce our intellectual property rights or a finding that we have infringed the intellectual property rights of a third party could limit our ability to develop or market our products and services in the future or adversely affect our revenues. Furthermore, any public announcements related to such litigation or regulatory proceedings could adversely affect the price of our common stock. Third parties may allege that the research, development and commercialization activities we conduct infringe patents or other proprietary rights owned by such parties. This may turn out to be the case even though we have conducted a search and analysis of third-party patent rights and have determined that certain aspects of our research and development and proposed products activities apparently do not infringe on any third-party Chinese patent rights. If we are found to have infringed the patents of a third party, we may be required to pay substantial damages; we also may be required to seek from such party a license, which may not be available on acceptable terms, if at all, to continue our activities. A judicial finding or infringement or the failure to obtain necessary licenses could prevent us from commercializing our products, which would have a material adverse effect on our business, operating results and financial condition.

If we are unable to maintain our licenses, patents or other intellectual property we could lose important protections that are material to continuing our operations and our future prospects.

To obtain and maintain patent protection and licensing rights that are required in order for us to conduct and pursue our business plans, we must, among other things, ensure the timely payment of all applicable filing and maintenance fees, pay applicable license fees to our licensor(s), renew the term of certain licenses which are not perpetual, or expand the scope of the intellectual property under our license agreements. In order to renew the term of any license or expand its scope, we may be required to pay additional licensing fees to our licensor(s). Any failure to take the above actions or make payments which we are obligated to make, could result in the loss of some or all of our rights to proprietary technology or the inability to secure or enforce intellectual property protection. Additionally, our license agreements require us to meet certain diligence obligations in the development of the licensed products. Our failure to meet these diligence obligations could result in the loss of some or all of our rights, which could materially and adversely affect our business and future prospects.

If we are unable to protect the confidentiality of trade secrets, our competitive position could be impaired.

A significant amount of our technology, particularly with respect to our proprietary manufacturing processes, is unpatented and is held in the form of trade secrets. We expend significant efforts to protect these trade secrets, including the use of confidentiality and proprietary information agreement, and knowledge segmentation among our staff. Even so, improper use or disclosure of our confidential information could occur and in such cases adequate remedies may not exist. The inadvertent disclosure of our trade secrets could impair our competitive position.

Our technologies are at early stages of discovery and development, and we may fail to develop any commercially acceptable or profitable products.

We have yet to develop any therapeutic products that have been approved for marketing, and we do not expect to become profitable within the next several years, but rather expect our biomedicine business to incur additional and increasing operating losses. Before commercializing any therapeutic product in China, we may be required to obtain

regulatory approval from the MOH, CFDA, local regulatory authorities, and/or individual hospitals, and outside China from equivalent foreign agencies after conducting extensive preclinical studies and clinical trials that demonstrate that the product candidate is safe and effective.

We may elect to delay or discontinue studies or clinical trials based on unfavorable results. Any product developed from, or based on, cell technologies may fail to:

survive and persist in the desired location;

provide the intended therapeutic benefit;

engraft or integrate into existing tissue in the desired manner; or

achieve therapeutic benefits equal to, or better than, the standard of treatment at the time of testing.

In addition, our therapeutic products may cause undesirable side effects. Results of preclinical research in animals may not be indicative of future clinical results in humans.

Ultimately if regulatory authorities do not approve our products or if we fail to maintain regulatory compliance, we would be unable to commercialize our products, and our business and results of operations would be harmed. Even if we do succeed in developing products, we will face many potential obstacles such as the need to develop or obtain manufacturing, marketing and distribution capabilities. Furthermore, because transplantation of cells is a new form of therapy, the marketplace may not accept any products we may develop.

Presently, a moratorium declared by the PRC government on commercialization of stem cell therapies is in effect, pending release of new regulations. No assurances can be made regarding when the moratorium will be lifted, or regarding the substance of the new regulations. If the moratorium continues longer than expected, or if new regulations are not favorable to our development plans, our business could be adversely affected.

While we believe the PRC government is highly supportive of stem cell research and related potential advances in medical treatment, presently a moratorium is in effect in China (that we believe is temporary) which prevents any company from actually marketing and implementing cell therapies, while the central government considers and constructs a new set of rules and determines lines of authority among government agencies to regulate this new industry. We note however, that the moratorium appears to apply to cell therapeutics, and not immunotherapy, which may not necessarily affect the development of our HCC liver cancer therapy candidate. We also note that the moratorium bars marketing and implementation of products, treatments and therapies, but does not prevent the advancement of research, studies or development of potential products, treatments or therapies. Accordingly, we interpret the moratorium as a bar on marketing and use, but not a prohibition on conducting clinical trials, although we believe the practical effect of the moratorium has been to temporarily slow or halt applications for new clinical trials based on stem cell technology. The central government has declared stem cell technology to be a part of China's national long-term scientific and technological development plan from 2006 to 2020. The government has also announced its intention to release new laws to regulate our industry, which are soon anticipated to be codified into law. Although we believe there is a high probability that laws adopted and codified in the PRC will ultimately be supportive of our development plans and consistent with the government's prior policy pronouncements, there can be no assurance that these laws, once released and when applied, will be favorable to our interests. If the government fails to enact laws and lift the moratorium in the expected time frame, or if its laws when released and enacted are burdensome to our development, our plans could be delayed or thwarted, and our business would be materially and adversely affected. In March 2013, the PRC central government released proposed regulations of the MOH and the CFDA relating to the conduct of cell therapy pre-clinical and clinical trials in China. While management believes this is an indication that final rules may soon be adopted, we cannot provide any assurances as to the likely content of the final rules nor when they will become effective.

Most potential applications of our technology are pre-commercialization, which subjects us to development and marketing risks.

We are in a relatively early stage on the path to commercialization with many of our products. Successful development and market acceptance of our products is subject to developmental risks, including failure to achieve innovative solutions to problems during development, ineffectiveness, lack of safety, unreliability, failure to receive necessary regulatory clearances or approvals, approval by hospital ethics committees and other governing bodies, high commercial cost, preclusion or obsolescence resulting from third parties' proprietary rights or superior or equivalent products, competition, and general economic conditions affecting purchasing patterns. There is no assurance that we or our partners will successfully develop and commercialize our products, or that our competitors will not develop competing products, treatments or technologies that are less expensive or superior. Failure to successfully develop and market our products would have a substantial negative effect on our results of operations and financial condition.

Market acceptance of new technology such as ours can be difficult to obtain.

New and emerging cell therapy and cell banking technologies may have difficulty or encounter significant delays in obtaining market acceptance in some or all countries around the world due to the novelty of our cell therapy and cell banking technologies. Therefore, the market adoption of our cell therapy and cell banking technologies may be slow and lengthy with no assurances that the technology will be successfully adopted. The lack of market adoption or reduced or minimal market adoption of cell therapy and cell banking technologies may have a significant impact on our ability to successfully sell our future product(s) or therapies within China or in other countries. Our strategy depends in part on the adoption of the therapies we may develop by state-owned hospital systems in China, and the allocation of resources to new technologies and treatment methods is largely dependent upon ethics committees and governing bodies within the hospitals. Even if our clinical trials are successful, there can be no assurance that hospitals in China will adopt our technology and therapies as readily as we may anticipate.

Future clinical trial results may differ significantly from our expectations.

While we have proceeded incrementally with our clinical trials in an effort to gauge the risks of proceeding with larger and more expensive trials, we cannot guarantee that we will not experience negative results with larger and much more expensive clinical trials than we have conducted to date. Poor results in our clinical trials could result in substantial delays in commercialization, substantial negative effects on the perception of our products, and substantial additional costs. These risks are increased by our reliance on third parties in the performance of many of the clinical trial functions, including the clinical investigators, hospitals, and other third party service providers.

Our product candidates may cause undesirable side effects or have other properties that could halt their clinical development, prevent their regulatory approval, limit their commercial potential or result in significant negative consequences.

Undesirable side effects caused by our product candidates could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restrictive label or the delay or denial of regulatory approval by the CFDA or other foreign regulatory authorities. Results of our trials could reveal a high and unacceptable severity and prevalence of side effects or unexpected characteristics.

If unacceptable toxicities arise in the development of our product candidates, we could suspend or terminate our trials or the CFDA or other foreign regulatory authorities could order us to cease clinical trials or deny approval of our product candidates for any or all targeted indications. Treatment-related side effects could also affect patient recruitment or the ability of enrolled subjects to complete the trial or result in potential product liability claims. In addition, these side effects may not be appropriately recognized or managed by the treating medical staff, as toxicities resulting from personalized cancer immune cell therapy are not normally encountered in the general patient population and by medical personnel. We expect to have to train medical personnel using our therapy protocols to understand the side effect profile of for our clinical trials and upon any commercialization of our product candidates. Inadequate training in recognizing or managing the potential adverse side effects of our product candidates could result in patient deaths. Any of these occurrences may harm our business, financial condition and prospects significantly.

We face risks relating to the cell therapy industry, clinical development and commercialization.

Cell therapy is still a developing field and a significant global market for our services has yet to emerge. Our cellular therapy candidates are based on novel cell technologies that are inherently risky and may not be understood or accepted by the marketplace. The current market principally consists of providing manufacturing of cell and tissue-based therapeutic products for clinical trials and processing of stem cell products for therapeutic programs.

The degree of market acceptance of any future product candidates will depend on a number of factors, including:

- the clinical safety and effectiveness of the product candidates, the availability of alternative treatments and the perceived advantages of the particular product candidates over alternative treatments;
- the relative convenience and ease of administration of the product candidates;
- our ability to separate the product candidates from the ethical controversies and political barriers associated with stem cell product candidates derived from human embryonic or fetal tissue;
- ethical concerns that may arise regarding our commercial use of stem cells, including adult stem cells, in the manufacture of the product candidates;

- the frequency and severity of adverse events or other undesirable side effects involving the product candidates or the products or product candidates of others that are cell-based; and

- the cost of the products, the reimbursement policies of government and third-party payers and our ability to obtain sufficient third-party coverage or reimbursement.

If clinical trials of our technology fail to demonstrate safety and efficacy to the satisfaction of the relevant regulatory authorities, including the PRC's China Food and Drug Administration and the Ministry of Health, or do not otherwise produce positive results, we may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of such product candidates.

Currently, a regulatory structure has not been established to standardize the approval process for products or therapies based on the technology that exists or that is being developed in our field. Therefore we must conduct, at our own expense, extensive clinical trials to demonstrate the safety and efficacy of the product candidates in humans, and then archive our results until such time as a new regulatory regime is put in place. If and when this new regulatory regime is adopted it may be easier or more difficult to navigate than CBMG may anticipate, with the following potential barriers:

- regulators or institutional review boards may not authorize us or our investigators to commence clinical trials or conduct clinical trials at a prospective trial site;

- clinical trials of product candidates may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical trials or abandon product development programs that we expect to be pursuing;

- the number of patients required for clinical trials of product candidates may be larger than we anticipate, enrollment in these clinical trials may be slower than we anticipate, or participants may drop out of these clinical trials at a higher rate than we anticipate;

- third party contractors may fail to comply with regulatory requirements or meet their contractual obligations to us in a timely manner or at all;

we might have to suspend or terminate clinical trials of our product candidates for various reasons, including a finding that the participants are being exposed to unacceptable health risks;

regulators or institutional review boards may require that we or our investigators suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements;

the cost of clinical trials of our product candidates may be greater than anticipated;

we may be subject to a more complex regulatory process, since cell-based therapies are relatively new and regulatory agencies have less experience with them as compared to traditional pharmaceutical products;

the supply or quality of our product candidates or other materials necessary to conduct clinical trials of these product candidates may be insufficient or inadequate; and

our product candidates may have undesirable side effects or other unexpected characteristics, causing us or our investigators to halt or terminate the trials.

We may be unable to generate interest or meaningful revenue in out-license our intellectual property.

The results of preclinical studies may not correlate with the results of human clinical trials. In addition, early stage clinical trial results do not ensure success in later stage clinical trials, and interim trial results are not necessarily predictive of final trial results.

To date, we have not completed the development of any products through regulatory approval. The results of preclinical studies in animals may not be predictive of results in a clinical trial. Likewise, the outcomes of early clinical trials may not be predictive of the success of later clinical trials. New information regarding the safety and efficacy of such product candidates may be less favorable than the data observed to date. AG's budding technical service revenue in the Jilin Hospital should not be relied upon as evidence that later or larger-scale clinical trials will succeed. In addition, even if the trials are successfully completed, we cannot guarantee that the CFDA or other foreign regulatory authorities will interpret the results as we do, and more trials could be required before we submit our product candidates for approval. To the extent that the results of the trials are not satisfactory to the CFDA or other foreign regulatory authorities for support of a marketing application, approval of our product candidates may be significantly delayed, or we may be required to expend significant additional resources, which may not be available to us, to conduct additional trials in support of potential approval of our product candidates.

If we encounter difficulties enrolling patients in our clinical trials, our clinical development activities could be delayed or otherwise adversely affected.

We may experience difficulties in patient enrollment in our clinical trials for a variety of reasons. The timely completion of clinical trials in accordance with their protocols depends, among other things, on our ability to enroll a sufficient number of patients who remain in the study until its conclusion. The enrollment of patients depends on many factors, including:

the patient eligibility criteria defined in the protocol;
the size of the patient population required for analysis of the trial's primary endpoints;
the proximity of patients to study sites;
the design of the trial;
our ability to recruit clinical trial investigators with the appropriate competencies and experience;
our ability to obtain and maintain patient consents; and

the risk that patients enrolled in clinical trials will drop out of the trials before completion.

In addition, our clinical trials will compete with other clinical trials for product candidates that are in the same therapeutic areas as our product candidates, and this competition will reduce the number and types of patients available to us, because some patients who might have opted to enroll in our trials may instead opt to enroll in a trial being conducted by one of our competitors. Since the number of qualified clinical investigators is limited, we expect to conduct some of our clinical trials at the same clinical trial sites that some of our competitors use, which will reduce the number of patients who are available for our clinical trials in such clinical trial site. Moreover, because our product candidates represent a departure from more commonly used methods for cancer treatment, potential patients and their doctors may be inclined to use conventional therapies, such as chemotherapy and or traditional Chinese medicine, rather than enroll patients in any future clinical trial.

Upon commencing clinical trials, delays in patient enrollment may result in increased costs or may affect the timing or outcome of the planned clinical trials, which could prevent completion of these trials and adversely affect our ability to advance the development of our product candidates.

We currently have no marketing and sales organization and have no experience in marketing such products. If we are unable to establish marketing and sales capabilities or enter into agreements with third parties to market and sell our product candidates, we may not be able to generate product revenue.

We currently have no sales, marketing or distribution capabilities and have no experience in marketing products. We intend to develop an in-house marketing organization and sales force, which will require significant capital expenditures, management resources and time. We will have to compete with other pharmaceutical and biotechnology companies to recruit, hire, train and retain marketing and sales personnel.

If we are unable or decide not to establish internal sales, marketing and distribution capabilities, we will pursue collaborative arrangements regarding the sales and marketing of our products, however, there can be no assurance that we will be able to establish or maintain such collaborative arrangements, or if we are able to do so, that they will have effective sales forces. Any revenue we receive will depend upon the efforts of such third parties, which may not be successful. We may have little or no control over the marketing and sales efforts of such third parties and our revenue from product sales may be lower than if we had commercialized our product candidates ourselves. We also face competition in our search for third parties to assist us with the sales and marketing efforts of our product candidates. There can be no assurance that we will be able to develop in-house sales and distribution capabilities or establish or maintain relationships with third-party collaborators to commercialize any product in China or overseas.

Laws and the regulatory infrastructure governing the stem cell industry in China are relatively new and less established in comparison to the U.S. and other countries; accordingly regulation may be less stable and predictable than desired, and regulatory changes may disrupt our commercialization process.

Regulation of the medical field in China including pharmaceuticals, medical technologies, and medical practice, is relatively new and less established compared to the U.S. and in many other countries. In addition the practice of and research relating to cell therapeutics has emerged in China very recently, and the government has not yet decided how the industry shall be regulated. Accordingly we expect that the regulatory environment in China will be comparatively less predictable, and if the government changes any of its policies relating to our industry, or changes in the manner in which rules are applied or interpreted, our commercialization process may be disrupted or delayed, which would adversely affect our results and prospects.

Coverage and reimbursement may be limited or unavailable in certain market segments for our product candidates, which could make it difficult for us to sell our product candidates profitably.

Successful sales of our product candidates, if approved, depend on the availability of adequate coverage and reimbursement from third-party payors. In addition, because our product candidates represent new approaches to the treatment of cancer, we cannot accurately estimate the potential revenue from our product candidates.

Patients who are provided medical treatment for their conditions generally rely on third-party payors to reimburse all or part of the costs associated with their treatment. Adequate coverage and reimbursement from governmental healthcare programs and commercial payors is critical to new product acceptance. In China, government authorities decide which drugs and treatments they will cover and the amount of reimbursement. Obtaining coverage and reimbursement approval of a product from a government or other third-party payor is a time-consuming and costly process that could require us to provide to the payor supporting scientific, clinical and cost-effectiveness data for the use of our products. Even if we obtain coverage for a given product, the resulting reimbursement payment rates might not be adequate for us to achieve or sustain profitability or may require co-payments that patients find unacceptably high. Patients are unlikely to use our product candidates unless coverage is provided and reimbursement is adequate to cover a significant portion of the cost of our product candidates. If we obtain approval in one or more jurisdictions outside of China for our product candidates, we will be subject to rules and regulations in those jurisdictions. In some foreign countries, particularly those in the EU, the pricing of biologics is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after obtaining marketing approval of a product candidate. In addition, market acceptance and sales of our product candidates will depend significantly on the availability of adequate coverage and reimbursement from third-party payors for our product candidates and may be affected by existing and future health care reform measures. The continuing efforts of the government, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce costs of healthcare and/or impose price controls may adversely affect:

the demand for our product candidates, if we obtain regulatory approval;
our ability to set a price that we believe is fair for our products;
our ability to generate revenue and achieve or maintain profitability;
the level of taxes that we are required to pay; and
the availability of capital.

Any reduction in reimbursement from any government programs may result in a similar reduction in payments from private payors, which may adversely affect our future profitability.

Technological and medical developments or improvements in conventional therapies could render the use of cell therapy and our services and planned products obsolete.

Advances in other treatment methods or in disease prevention techniques could significantly reduce or entirely eliminate the need for our cell therapy services, planned products and therapeutic efforts. There is no assurance that cell therapies will achieve the degree of success envisioned by us in the treatment of disease. Nor is there any assurance that new technological improvements or techniques will not render obsolete the processes currently used by us, the need for our services or our planned products. Additionally, technological or medical developments may materially alter the commercial viability of our technology or services, and require us to incur significant costs to replace or modify equipment in which we have a substantial investment. We are focused on novel cell therapies, and if this field is substantially unsuccessful, this could jeopardize our success or future results. The occurrence of any of these factors may have a material adverse effect on our business, operating results and financial condition.

We face significant competition from other Chinese biotechnology and pharmaceutical companies, and our operating results will suffer if we fail to compete effectively.

There is intense competition and rapid innovation in the Chinese cell therapy industry, and in the cancer immunotherapy space in particular. Our competitors may be able to develop other herbal medicine, compounds or drugs that are able to achieve similar or better results. Our potential competitors are comprised of traditional Chinese medicine companies, major multinational pharmaceutical companies, established and new biotechnology companies, specialty pharmaceutical companies, state-owned enterprises, universities and other research institutions. Many of our competitors have substantially greater scientific, financial, technical and other resources, such as larger research and development staff and experienced marketing and manufacturing organizations and well-established sales forces. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large, established companies or are well funded by venture capitals. Mergers and acquisitions in the biotechnology and pharmaceutical industries may result in even more resources being concentrated in our competitors. Competition may increase further as a result of advances in the commercial applicability of technologies and greater availability of capital for investment in these industries. Our competitors, either alone or with collaborative partners, may succeed in developing, acquiring or licensing on an exclusive basis drug or biologic products that are more effective, safer, more easily commercialized or less costly than our product candidates or may develop proprietary technologies or secure patent protection that we may need for the development of our technologies and products. We believe the key competitive factors that will affect the development and commercial success of our product candidates are efficacy, safety, tolerability, reliability, and convenience of use, price and reimbursement.

Even if we obtain regulatory approval of our product candidates, the availability and price of our competitors' products could limit the demand and the price we are able to charge for our product candidates. We may not be able to implement our business plan if the acceptance of our product candidates is inhibited by price competition or the reluctance of doctors to switch from existing methods of treatment to our product candidates, or if doctors switch to other new drug or biologic products or choose to reserve our product candidates for use in limited circumstances.

There is a scarcity of experienced professionals in the field of cell therapy and we may not be able to retain key officers or employees or hire new key officers or employees needed to implement our business strategy and develop our products. If we are unable to retain or hire key officers or employees, we may be unable to grow our biomedicine business or implement our business strategy, and the Company may be materially and adversely affected.

Given the specialized nature of cell therapy and the fact that it is a young field, there is an inherent scarcity of experienced personnel in the field. The Company is substantially dependent on the skills and efforts of current senior management, as well as the newly acquired AG management and personnel, for their management, operations and the implementation of their business strategy. As a result of the difficulty in locating qualified new management, the loss or incapacity of existing members of management or unavailability of qualified management or as replacements for management who resign or are terminated could adversely affect the Company's operations. The future success of the Company also depends upon our ability to attract and retain additional qualified personnel (including medical, scientific, technical, commercial, business and administrative personnel) necessary to support our anticipated growth, develop our business, perform our contractual obligations to third parties and maintain appropriate licensure, on acceptable terms. There can be no assurance that we will be successful in attracting or retaining personnel required by us to continue to grow our operations. The loss of a key employee, the failure of a key employee to perform in his or her current position or our inability to attract and retain skilled employees, as needed, could result in our inability to grow our biomedicine business or implement our business strategy, or may have a material adverse effect on our business, financial condition and operating results.

We rely heavily on third parties to conduct clinical trials on our product candidates.

We presently are party to, and expect that we will be required to enter into, agreements with hospitals and other research partners to perform clinical trials for us and to engage in sales, marketing and distribution efforts for our products and product candidates we may acquire in the future. We may be unable to establish or maintain third-party relationships on a commercially reasonable basis, if at all. In addition, these third parties may have similar or more established relationships with our competitors or other larger customers. Moreover, the loss for any reason of one or more of these key partners could have a significant and adverse impact on our business. If we are unable to obtain or retain third party sales and marketing vendors on commercially acceptable terms, we may not be able to commercialize our therapy products as planned and we may experience delays in or suspension of our marketing launch. Our dependence upon third parties may adversely affect our ability to generate profits or acceptable profit margins and our ability to develop and deliver such products on a timely and competitive basis.

We will need to grow the size of our organization, and we may experience difficulties in managing this growth.

We added 30 employees in the recent AG acquisition. As our development and commercialization plans and strategies develop, and as we continue to expand operation as a public company, we expect to grow our personnel needs in the managerial, operational, sales, marketing, financial and other departments. Future growth would impose significant added responsibilities on members of management, including:

identifying, recruiting, integrating, maintaining and motivating additional employees;
managing our internal development efforts effectively, including the clinical trials and CFDA review process for our product candidates, while complying with our contractual obligations to contractors and other third parties; and

improving our operational, financial and management controls, reporting systems and procedures.

Our future financial performance and our ability to commercialize our product candidates will depend, in part, on our ability to effectively manage any future growth, and our management may also have to divert a disproportionate amount of its attention away from day-to-day activities in order to devote a substantial amount of time to managing these growth activities.

We currently rely, and for the foreseeable future will continue to rely, in substantial part on certain independent organizations such as CRO and hospitals to provide certain services comprised of regulatory approval and clinical management. There can be no assurance that the services of independent organizations will continue to be available to us on a timely basis when needed, or that we can find qualified replacements. In addition, if we are unable to effectively manage our outsourced activities or if the quality or accuracy of the services provided by the independent organizations is compromised for any reason, our clinical trials may be extended, delayed or terminated, and we may not be able to obtain regulatory approval of our product candidates or otherwise advance our business. If we are not able to effectively expand our organization by hiring new employees, we may not be able to successfully implement the tasks necessary to further develop and commercialize our product candidates and, accordingly, may not achieve our research, development and commercialization goals.

We may form or seek strategic alliances or enter into licensing arrangements in the future, and we may not realize the benefits of such alliances or licensing arrangements.

We may form or seek strategic alliances, create joint ventures or collaborations or enter into licensing arrangements with third parties that we believe will complement or augment our development and commercialization efforts with respect to our product candidates and any future product candidates that we may develop. Any of these relationships may require us to incur non-recurring and other charges, increase our near and long-term expenditures, issue securities that dilute our existing stockholders or disrupt our management and business. In addition, we face significant competition in seeking appropriate strategic partners and the negotiation process is time-consuming and complex. Moreover, we may not be successful in our efforts to establish a strategic partnership or other alternative arrangements for our product candidates because they may be deemed to be at too early of a stage of development for collaborative effort and third parties may not view our product candidates as having the requisite potential to demonstrate safety and efficacy. If we license products or businesses, we may not be able to realize the benefit of such transactions if we are unable to successfully integrate them with our existing operations and company culture. We cannot be certain that, following a strategic transaction or license, we will achieve the revenue or specific net income that justifies such transaction. Any delays in entering into new strategic partnership agreements related to our product candidates could delay the development and commercialization of our product candidates in certain geographies for certain indications, which would harm our business prospects, financial condition and results of operations.

We, our strategic partners and our customers conduct business in a heavily regulated industry. If we or one or more of our strategic partners or customers fail to comply with applicable current and future laws and government regulations, our business and financial results could be adversely affected.

The healthcare industry is one of the most highly regulated industries. Federal governments, individual state and local governments and private accreditation organizations may oversee and monitor all the activities of individuals and businesses engaged in the delivery of health care products and services. Therefore, current laws, rules and regulations could directly or indirectly negatively affect our ability and the ability of our strategic partners and customers to operate each of their businesses.

In addition, as we expand into other parts of the world, we will need to comply with the applicable laws and regulations in such foreign jurisdictions. We have not yet thoroughly explored the requirements or feasibility of such compliance. It is possible that we may not be permitted to expand our business into one or more foreign jurisdictions.

Although we intend to conduct our business in compliance with applicable laws and regulations, the laws and regulations affecting our business and relationships are complex, and many aspects of such relationships have not been the subject of judicial or regulatory interpretation. Furthermore, the cell therapy industry is the topic of significant government interest, and thus the laws and regulations applicable to us and our strategic partners and customers and to their business are subject to frequent change and/or reinterpretation and there can be no assurance that the laws and regulations applicable to us and our strategic partners and customers will not be amended or interpreted in a manner that adversely affects our business, financial condition, or operating results.

We anticipate that we will need substantial additional financing in the future to continue our operations; if we are unable to raise additional capital, as and when needed, or on acceptable terms, we may be forced to delay, reduce or eliminate one or more of our product or therapy development programs, cell therapy initiatives or commercialization efforts and our business will harmed.

Our current operating plan will require significant levels of additional capital to fund, among other things, the continued development of our cell therapy product or therapy candidates and the operation, and expansion of our manufacturing operations to our clinical development activities.

In 2013 we completed KOA and HCC Phase I clinical trials. We have received six-month MRI data for our KOA Phase IIa clinical trial on statistically relevant evidence of cartilage growth and have completed patient enrollment for our Phase IIb KOA trial, ahead of our anticipated schedule. We expect to publish 12-month follow-up data for Phase I/IIa in the fourth quarter of 2014 and interim observation for Phase IIb in the first half of 2015. We are continuing our observation of Phase I HCC TC-DC therapy trial patients beyond the safety analysis and expect to have an update in late 2014. We have also launched pre-clinical study on COPD and haMPC therapy for Asthma.

If these trials are successful, we will require significant additional investment capital over a multi-year period in order to conduct subsequent phases, gain approval for these therapies by the MOH and CFDA, and to commercialize these therapies, if ever. Subsequent phases may be larger and more expensive than the Phase I trials. In order to raise the necessary capital, we will need to raise additional money in the capital markets, enter into collaboration agreements with third parties or undertake some combination of these strategies. If we are unsuccessful in these efforts, we may have no choice but to delay or abandon the trials.

The amount and timing of our future capital requirements also will likely depend on many other factors, including:

- the scope, progress, results, costs, timing and outcomes of our other cell therapy product or therapy candidates;

our ability to enter into, or continue, any collaboration agreements with third parties for our product or therapy candidates and the timing and terms of any such agreements;

the timing of and the costs involved in obtaining regulatory approvals for our product or therapy candidates, a process which could be particularly lengthy or complex given the lack of precedent for cell therapy products in China; and

the costs of maintaining, expanding and protecting our intellectual property portfolio, including potential litigation costs and liabilities.

To fund clinical studies and support our future operations, we would likely seek to raise capital through a variety of different public and/or private financings vehicles. This could include, but not be limited to, the use of loans or issuances of debt or equity securities in public or private financings. If we raise capital through the sale of equity, or securities convertible into equity, it would result in dilution to our then existing stockholders. Servicing the interest and principal repayment obligations under debt facilities could divert funds that would otherwise be available to support clinical or commercialization activities. In certain cases, we also may seek funding through collaborative arrangements, that would likely require us to relinquish certain rights to our technology or product or therapy candidates and share in the future revenues associated with the partnered product or therapy.

Ultimately, we may be unable to raise capital or enter into collaborative relationships on terms that are acceptable to us, if at all. Our inability to obtain necessary capital or financing to fund our future operating needs could adversely affect our business, results of operations and financial condition.

Our management will have broad discretion to allocate the net proceeds of future financings and may not use these proceeds efficiently.

Our management will have broad discretion as to the use and allocation of the net proceeds of future financings, which allocation may be revised by us from time to time. Accordingly, investors will not have the opportunity to evaluate the economic, financial and other relevant information that we may consider in the application of the net proceeds. We cannot guarantee that we will make the most efficient use of the net proceeds or that you will agree with the way in which such net proceeds are used. Our failure to apply these funds effectively could have a material adverse effect on our business, results of operations and financial condition.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and operating results.

It may be time consuming, difficult and costly for us to develop and implement the additional internal controls, processes and reporting procedures required by the Sarbanes-Oxley Act. We may need to hire additional financial reporting, internal auditing and other finance staff in order to develop and implement appropriate additional internal controls, processes and reporting procedures.

If we fail to comply in a timely manner with the requirements of Section 404 of the Sarbanes-Oxley Act regarding internal controls over financial reporting or to remedy any material weaknesses in our internal controls that we may identify, such failure could result in material misstatements in our financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our common stock.

In connection with our on-going assessment of the effectiveness of our internal control over financial reporting, we may discover “material weaknesses” in our internal controls as defined in standards established by the Public Company Accounting Oversight Board (“PCAOB”). A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The PCAOB defines “significant deficiency” as a deficiency that results in more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected.

During the year ended December 31, 2013, we identified a number of significant deficiencies related to the Company’s pre-merger’s management structure. We have made improvements in our internal control structure in an attempt to remediate these deficiencies. However, until such time that we have updated our annual evaluation of internal controls over financial reporting, our disclosure controls are assumed to remain ineffective. In the event that future material weaknesses are identified, we will attempt to employ qualified personnel and adopt and implement policies and procedures to address any material weaknesses we identify. However, the process of designing and implementing effective internal controls is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. We cannot assure you that we will have the resources to be able to take steps to attempt to remedy any future material weaknesses or that the measures we will take will remediate any material weaknesses that we may identify or that we will implement and maintain adequate controls over our financial process and reporting in the future.

Any failure to complete our assessment of our internal control over financial reporting, to remediate any material weaknesses that we may identify or to implement new or improved controls, or difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of the periodic management evaluations of our internal controls and, in the case of a failure to remediate any material

weaknesses that we may identify, would adversely affect the annual management reports regarding the effectiveness of our internal control over financial reporting that are required under Section 404 of the Sarbanes-Oxley Act. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

RISKS RELATED TO OUR STRUCTURE

The laws and regulations governing the therapeutic use of stem cells in China are evolving. New PRC laws and regulations may impose conditions or requirements which could materially and adversely affect our business.

As the cell therapy industry is at an early stage of development in China, new laws and regulations may be adopted in the future to address new issues that arise from time to time. As a result, substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC laws and regulations applicable to the cell therapy industry. There is no way to predict the content or scope of future Chinese regulation. There can be no assurance that the PRC government authorities will not issue new laws or regulations that impose conditions or requirements with which we cannot comply. Noncompliance could materially and adversely affect our business, results of operations and financial condition. On December 16, 2011, China's MOH announced its intention to more tightly regulate clinical trials and cell therapeutic treatments in the PRC. The MOH ordered an immediate halt to "unapproved stem cell clinical trials and applications," and put applications for new stem cell trials on hold until July 1, 2012, and the lifting of this moratorium has been delayed. For those clinical trials for stem cell products already approved by the CFDA, the Clinical Trial Approval Instructions and the Good Clinical Practice ("GCP") shall be strictly followed, with unwarranted changes to the approved clinical trial protocol and profit seeking activities strictly forbidden. As of the date of this current report, the foregoing moratorium has not been lifted.

Our operations are subject to risks associated with emerging markets.

The Chinese economy is not well established and is only recently emerging and growing as a significant market for consumer goods and services. Accordingly, there is no assurance that the market will continue to grow. Perceived risks associated with investing in China, or a general disruption in the development of China's markets could materially and adversely affect the business, operating results and financial condition of the Company.

A substantial portion of our assets are currently located in the PRC, and investors may not be able to enforce federal securities laws or their other legal rights.

A substantial portion of our assets are located in the PRC. As a result, it may be difficult for investors in the U.S. to enforce their legal rights, to effect service of process upon certain of our directors or officers or to enforce judgments of U.S. courts predicated upon civil liabilities and criminal penalties against any of our directors and officers located outside of the U.S.

The PRC government has the ability to exercise significant influence and control over our operations in China.

In recent years, the PRC government has implemented measures for economic reform, the reduction of state ownership of productive assets and the establishment of corporate governance practices in business enterprises. However, many productive assets in China are still owned by the PRC government. In addition, the government continues to play a significant role in regulating industrial development by imposing business regulations. It also exercises significant control over the country's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

There can be no assurance that China's economic, political or legal systems will not develop in a way that becomes detrimental to our business, results of operations and financial condition. Our activities may be materially and adversely affected by changes in China's economic and social conditions and by changes in the policies of the government, such as measures to control inflation, changes in the rates or method of taxation and the imposition of additional restrictions on currency conversion.

Additional factors that we may experience in connection with having operations in China that may adversely affect our business and results of operations include:

- our inability to enforce or obtain a remedy under any material agreements;
- PRC restrictions on foreign investment that could impair our ability to conduct our business or acquire or contract with other entities in the future;
- restrictions on currency exchange that may limit our ability to use cash flow most effectively or to repatriate our investment;
- fluctuations in currency values;
- cultural, language and managerial differences that may reduce our overall performance; and
- political instability in China.

Cultural, language and managerial differences may adversely affect our overall performance.

We have experienced difficulties in assimilating cultural, language and managerial differences with our subsidiaries in China. Personnel issues have developed in consolidating management teams from different cultural backgrounds. In addition, language translation issues from time to time have caused miscommunications. These factors make the management of our operations in China more difficult. Difficulties in coordinating the efforts of our U.S.-based management team with our China-based management team may cause our business, operating results and financial condition to be materially and adversely affected.

We may not be able to enforce our rights in China.

China's legal and judicial system may negatively impact foreign investors. The legal system in China is evolving rapidly, and enforcement of laws is inconsistent. It may be impossible to obtain swift and equitable enforcement of laws or enforcement of the judgment of one court by a court of another jurisdiction. China's legal system is based on civil law or written statutes and a decision by one judge does not set a legal precedent that must be followed by judges in other cases. In addition, the interpretation of Chinese laws may vary to reflect domestic political changes.

Since a portion of our operations are presently based in China, service of process on our business and officers may be difficult to effect within the United States. Also, some of our assets are located outside the United States and any judgment obtained in the United States against us may not be enforceable outside the United States.

There are substantial uncertainties regarding the interpretation and application to our business of PRC laws and regulations, since many of the rules and regulations that companies face in China are not made public. The effectiveness of newly enacted laws, regulations or amendments may be delayed, resulting in detrimental reliance by foreign investors. New laws and regulations that apply to future businesses may be applied retroactively to existing businesses. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our business.

Our operations in China are subject to government regulation that limit or prohibit direct foreign investment, which may limit our ability to control operations based in China.

The PRC government has imposed regulations in various industries, including medical research and the stem cell industry, that limit foreign investors' equity ownership or prohibit foreign investments altogether in companies that operate in such industries. We are currently structured as a U.S. corporation (Delaware) with subsidiaries and controlled entities in China. As a result of these regulations and the manner in which they may be applied or enforced, our ability to control our existing operations based in China may be limited or restricted.

If the relevant Chinese authorities find us or any business combination to be in violation of any laws or regulations, they would have broad discretion in dealing with such violation, including, without limitation: (i) levying fines; (ii) revoking our business and other licenses; (iii) requiring that we restructure our ownership or operations; and (iv) requiring that we discontinue any portion or all of our business.

We may suffer losses if we cannot utilize our assets in China.

The Company's Shanghai and Wuxi laboratory facilities were originally intended for stem cell research and development, but has been equipped to provide comprehensive cell manufacturing, collection, processing and storage capabilities to provide cells for clinical trials. The lease for this facility expires in 2014 and the Company is considering its options with respect to extending this lease to allow for manufacturing for clinical trials in Asia. If the Company does not determine to renew the lease due to limitations on its utility under the new regulatory initiatives in China or otherwise, the Company may incur certain expenses in connection with returning the premises to the landlord. Management believes it will be able to renew all leases without difficulty.

Restrictions on currency exchange may limit our ability to utilize our cash flow effectively.

Our interests in China will be subject to China's rules and regulations on currency conversion. In particular, the initial capitalization and operating expenses of the VIE ("CBMG Shanghai") are funded by our WFOE, Cellular Biomedicine Group Ltd. (Wuxi). In China, the State Administration for Foreign Exchange ("SAFE"), regulates the conversion of the Chinese Renminbi into foreign currencies and the conversion of foreign currencies into Chinese Renminbi. Currently,

foreign investment enterprises are required to apply to the SAFE for Foreign Exchange Registration Certificates, or IC Cards of Enterprises with Foreign Investment. Foreign investment enterprises holding such registration certificates, which must be renewed annually, are allowed to open foreign currency accounts including a “basic account” and “capital account.” Currency translation within the scope of the “basic account,” such as remittance of foreign currencies for payment of dividends, can be effected without requiring the approval of the SAFE. However, conversion of currency in the “capital account,” including capital items such as direct investments, loans, and securities, require approval of the SAFE. According to the Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues Concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises promulgated on August 29, 2008, or the SAFE Notice 142, to apply to a bank for settlement of foreign currency capital, a foreign invested enterprise shall submit the documents certifying the uses of the RMB funds from the settlement of foreign currency capital and a detailed checklist on use of the RMB funds from the last settlement of foreign currency capital. It is stipulated that only if the funds for the settlement of foreign currency capital are of an amount not more than US$50,000 and are to be used for enterprise reserve, the above documents may be exempted by the bank. This SAFE Notice 142, along with the recent practice of Chinese banks of restricting foreign currency conversion for fear of “hot money” going into China, limits and may continue to limit our ability to channel funds to the VIE entities for their operation. There can be no assurance that the PRC regulatory authorities will not impose further restrictions on the convertibility of the Chinese currency. Future restrictions on currency exchanges may limit our ability to use our cash flow for the distribution of dividends to our stockholders or to fund operations we may have outside of China, which could materially adversely affect our business and operating results.

Fluctuations in the value of the Renminbi relative to the U.S. dollar could affect our operating results.

We prepare our financial statements in U.S. dollars, while our underlying businesses operate in two currencies, U.S. dollars and Chinese Renminbi. It is anticipated that our Chinese operations will conduct their operations primarily in Renminbi and our U.S. operations will conduct their operations in dollars. At the present time, we do not expect to have significant cross currency transactions that will be at risk to foreign currency exchange rates. Nevertheless, the conversion of financial information using a functional currency of Renminbi will be subject to risks related to foreign currency exchange rate fluctuations. The value of Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions and supply and demand in local markets. As we have significant operations in China, and will rely principally on revenues earned in China, any significant revaluation of the Renminbi could materially and adversely affect our financial results. For example, to the extent that we need to convert U.S. dollars we receive from an offering of our securities into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar could have a material adverse effect on our business, financial condition and results of operations.

Beginning in July 2005, the PRC government changed its policy of pegging the value of Renminbi to the U.S. dollar. Under the new policy, the value of the Renminbi has fluctuated within a narrow and managed band against a basket of certain foreign currencies. However, the Chinese government has come under increasing U.S. and international pressure to revalue the Renminbi or to permit it to trade in a wider band, which many observers believe would lead to substantial appreciation of the Renminbi against the U.S. dollar and other major currencies. There can be no assurance that Renminbi will be stable against the U.S. dollar. On June 19, 2010 the central bank of China announced that it will gradually modify its monetary policy and make the Renminbi's exchange rate more flexible and allow the Renminbi to appreciate in value in line with its economic strength.

The China Food and Drug Administration's regulations may limit our ability to develop, license, manufacture and market our products and services.

Some or all of our operations in China will be subject to oversight and regulation by the CFDA and MOH. Government regulations, among other things, cover the inspection of and controls over testing, manufacturing, safety and environmental considerations, efficacy, labeling, advertising, promotion, record keeping and sale and distribution of pharmaceutical products. Such government regulations may increase our costs and prevent or delay the licensing, manufacturing and marketing of any of our products or services. In the event we seek to license, manufacture, sell or distribute new products or services, we likely will need approvals from certain government agencies such as the future growth and profitability of any operations in China would be contingent on obtaining the requisite approvals. There can be no assurance that we will obtain such approvals.

In 2004, the CFDA implemented new guidelines for the licensing of pharmaceutical products. All existing manufacturers with licenses were required to apply for the Good Manufacturing Practices ("cGMP") certifications.

According to Good Manufacturing Practices for Pharmaceutical Products (revised edition 2010), or the New GMP Rules promulgated by the Ministry of Health of the PRC on January 17, 2011 which became effective on March 1, 2011, all the newly constructed manufacturing facilities of drug manufacture enterprises in China shall comply with the requirements of the New GMP Rules, which are stricter than the original GMP standards.

In addition, delays, product recalls or failures to receive approval may be encountered based upon additional government regulation, legislative changes, administrative action or changes in governmental policy and interpretation applicable to the Chinese pharmaceutical industry. Our pharmaceutical activities also may subject us to government regulations with respect to product prices and other marketing and promotional related activities. Government regulations may substantially increase our costs for developing, licensing, manufacturing and marketing any products

or services, which could have a material adverse effect on our business, operating results and financial condition.

The CFDA and other regulatory authorities in China have implemented a series of new punitive and stringent measures regarding the pharmaceuticals industry to redress certain past misconducts in the industry and certain deficiencies in public health reform policies. Given the nature and extent of such new enforcement measures, the aggressive manner in which such enforcement is being conducted and the fact that newly-constituted local level branches are encouraged to issue such punishments and fines, there is the possibility of large scale and significant penalties being levied on manufacturers. These new measures may include fines, restriction and suspension of operations and marketing and other unspecified penalties. This new regulatory environment has added significantly to the risks of our businesses in China and may have a material adverse effect on our business, operating results and financial condition.

Some of the laws and regulations governing our business in China are vague and subject to risks of interpretation.

Some of the PRC laws and regulations governing our business operations in China are vague and their official interpretation and enforcement may involve substantial uncertainty. These include, but are not limited to, laws and regulations governing our business and the enforcement and performance of our contractual arrangements in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. Despite their uncertainty, we will be required to comply.

New laws and regulations that affect existing and proposed businesses may be applied retroactively. Accordingly, the effectiveness of newly enacted laws, regulations or amendments may not be clear. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our business.

In addition, pursuant to China's Administrative Measures on the Foreign Investment in Commercial Sector, foreign enterprises are permitted to establish or invest in wholly foreign-owned enterprises or joint ventures that engage in wholesale or retail sales of pharmaceuticals in China subject to the implementation of relevant regulations. However, no specific regulations in this regard have been promulgated to date, which creates uncertainty. If specific regulations are not promulgated, or if any promulgated regulations contain clauses that cause an adverse impact to our operations in China, then our business, operating results and financial condition could be materially and adversely affected.

The laws and regulations governing the therapeutic use of stem cells in China are evolving. New PRC laws and regulations may impose conditions or requirements which could materially and adversely affect our business.

As the cell therapy industry is at an early stage of development in China, new laws and regulations may be adopted in the future to address new issues that arise from time to time. As a result, substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC laws and regulations applicable to the cell therapy industry. There is no way to predict the content or scope of future Chinese regulation. There can be no assurance that the PRC government authorities will not issue new laws or regulations that impose conditions or requirements with which we cannot comply. Noncompliance could materially and adversely affect our business, results of operations and financial condition.

On December 16, 2011, China's MOH ordered an immediate halt to "unapproved stem cell clinical trials and applications," and put applications for new clinical trials on hold until July 1, 2012, which moratorium has been extended. For those clinical trials for stem cell products already approved by the CFDA, the Clinical Trial Approval Instructions and the GCP shall be strictly followed, with unwarranted changes to the approved clinical trial protocol and profit-seeking activities strictly forbidden. As of the date of this annual report, the foregoing moratorium has not been lifted.

The PRC government does not permit direct foreign investment in stem cell research and development businesses. Accordingly, we operate these businesses through local companies with which we have contractual relationships but in which we do not have direct equity ownership.

PRC regulations prevent foreign companies from directly engaging in stem cell-related research, development and commercial applications in China. Therefore, to perform these activities, we conduct much of our biomedicine business operations in China through a domestic variable interest entity, or VIE, a Chinese domestic company controlled by the Chinese employees of the Company. Our contractual arrangements may not be as effective in providing control over these entities as direct ownership. For example, the VIE could fail to take actions required for our business or fail to conduct business in the manner we desire despite their contractual obligation to do so. These companies are able to transact business with parties not affiliated with us. If these companies fail to perform under their agreements with us, we may have to rely on legal remedies under PRC law, which may not be effective. In

addition, we cannot be certain that the individual equity owners of the VIE would always act in our best interests, especially if they have no other relationship with us.

Although other foreign companies have used VIE structures similar to ours and such arrangements are not uncommon in connection with business operations of foreign companies in China in industry sectors in which foreign direct investments are limited or prohibited, recently there has been greater scrutiny by the business community of the VIE structure and, additionally, the application of a VIE structure to control companies in a sector in which foreign direct investment is specifically prohibited carries increased risks.

In addition, the Ministry of Commerce ("MOFCOM"), promulgated the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors in August 2011, or the MOFCOM Security Review Rules, to implement the Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated on February 3, 2011, or Circular No. 6. The MOFCOM Security Review Rules came into effect on September 1, 2011 and replaced the Interim Provisions of the Ministry of Commerce on Matters Relating to the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by MOFCOM in March 2011. According to these circulars and rules, a security review is required for mergers and acquisitions by foreign investors having "national defense and security" concerns and mergers and acquisitions by which foreign investors may acquire the "de facto control" of domestic enterprises having "national security" concerns. In addition, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to the security review, the MOFCOM will look into the substance and actual impact of the transaction. The MOFCOM Security Review Rules further prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. There is no explicit provision or official interpretation stating that our business falls into the scope subject to the security review, and there is no requirement for foreign investors in those mergers and acquisitions transactions already completed prior to the promulgation of Circular No. 6 to submit such transactions to MOFCOM for security review. The enactment of the MOFCOM National Security Review Rules specifically prohibits circumvention of the rules through VIE arrangement in the area of foreign investment in business of national security concern. Although we believe that our business, judging from its scale, should not cause any concern for national security review at its current state, there is no assurance that MOFCOM would not apply the same concept of anti-circumvention in the future to foreign investment in prohibited areas through VIE structure, the same way that our investment in China was structured.

Failure to comply with the U.S. Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

We are subject to the U.S. Foreign Corrupt Practices Act, which generally prohibits U.S. companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some that may compete with us, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in the PRC. There can be no assurance, however, that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

If we make equity compensation grants to persons who are PRC citizens, they may be required to register with SAFE. We may also face regulatory uncertainties that could restrict our ability to adopt equity compensation plans for our directors and employees and other parties under PRC laws.

On April 6, 2007, SAFE issued the "Operating Procedures for Administration of Domestic Individuals Participating in the Employee Stock Ownership Plan or Stock Option Plan of An Overseas Listed Company, also known as "Circular 78." It is not clear whether Circular 78 covers all forms of equity compensation plans or only those which provide for the granting of stock options. For any plans which are so covered and are adopted by a non-PRC listed company, such as our company, after April 6, 2007, Circular 78 requires all participants who are PRC citizens to register with and obtain approvals from SAFE prior to their participation in the plan. In addition, Circular 78 also requires PRC citizens to register with SAFE and make the necessary applications and filings if they participated in an overseas listed company's covered equity compensation plan prior to April 6, 2007. We believe that the registration and approval requirements contemplated in Circular 78 will be burdensome and time consuming.

If it is determined that any of our equity compensation plans are subject to Circular 78, failure to comply with such provisions may subject us and participants of our equity incentive plan who are PRC citizens to fines and legal sanctions and may possibly prevent us from being able to grant equity compensation to our PRC employees. In that case, our ability to compensate our employees and directors through equity compensation would be hindered and our business operations may be adversely affected.

The labor contract law and its implementation regulations may increase our operating expenses and may materially and adversely affect our business, financial condition and results of operations.

As the PRC Labor Contract Law ("Labor Contract Law") and the Implementation Regulation for the PRC Labor Contract Law ("Implementation Regulation") have been enforced for only a relatively short period of time, substantial uncertainty remains as to its potential impact on our business, financial condition and results of operations. The implementation of the Labor Contract Law and the Implementation Regulation may increase our operating expenses, in particular our human resources costs and our administrative expenses. In addition, as the interpretation and implementation of these regulations are still evolving, we cannot assure you that our employment practices will at all times be deemed to be in full compliance with the law. In the event that we decide to significantly modify our employment or labor policy or practice, or reduce the number of our sales professionals, the labor contract law may limit our ability to effectuate the modifications or changes in the manner that we believe to be most cost-efficient or otherwise desirable, which could materially and adversely affect our business, financial condition and results of operations. If we are subject to severe penalties or incur significant liabilities in connection with labor disputes or investigations, our business and results of operations may be adversely affected. In the event that we decide to significantly modify our employment or labor policy or practice, or reduce our professional staff, the labor contract law may limit our ability to effectuate the modifications or changes in the manner that we believe to be most cost-efficient or otherwise desirable, which could materially and adversely affect our business, financial condition and results of operations.

If relations between the United States and China worsen, our stock price may decrease and we may have difficulty accessing the U.S. capital markets.

At various times during recent years, the United States and China have had disagreements over trade, economic and other policy issues. Controversies may arise in the future between these two countries. Any political or trade controversies between the United States and China could adversely affect the market price of our common stock and our and our clients' ability to access U.S. capital markets.

RISKS RELATED TO OUR COMMON STOCK

If we fail to meet all applicable Nasdaq Capital Market requirements and Nasdaq determines to delist our common stock, the delisting could adversely affect the market liquidity of our common stock, impair the value of your investment, adversely affect our ability to raise needed funds and subject us to additional trading restrictions and regulations.

On June 18, 2014, our common stock began trading on the Nasdaq Capital Market. If we fail to satisfy the continued listing requirements of The NASDAQ Capital Market, such as the corporate governance requirements or the minimum closing bid price requirement, the NASDAQ Stock Market (or NASDAQ) may take steps to de-list our common stock. Such a de-listing would likely have a negative effect on the price of our common stock and would impair your ability to sell or purchase our common stock when you wish to do so. In the event of a de-listing, we would take actions to restore our compliance with NASDAQ's listing requirements, but we can provide no assurance that any such action taken by us would allow our common stock to become listed again, stabilize the market price or improve the liquidity of our common stock, prevent our common stock from dropping below the NASDAQ minimum bid price requirement or prevent future non-compliance with NASDAQ's listing requirements.

If we fail to meet all applicable Nasdaq requirements and Nasdaq delists our securities from trading on its exchange, we expect our securities could be quoted on the Over-The-Counter Bulletin Board ("OTCBB") or the "pink sheets." If this were to occur, we could face significant material adverse consequences, including:

a limited availability of market quotations for our securities;

reduced liquidity for our securities;

a determination that our common stock is "penny stock" which will require brokers trading in our common stock to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for our securities;

a limited amount of news and analyst coverage; and

a decreased ability to issue additional securities or obtain additional financing in the future.

Furthermore, The National Securities Markets Improvement Act of 1996 ("NSMIA"), which is a federal statute, prevents or preempts the states from regulating the sale of certain securities, which are referred to as "covered securities." Because our common stock is listed on Nasdaq, they are covered securities for the purpose of NSMIA. If our securities were no longer listed on Nasdaq and therefore not "covered securities", we would be subject to regulation in each state in which we offer our securities.

If our shares become subject to the penny stock rules, it would become more difficult to trade our shares.

The Securities and Exchange Commission (or SEC) has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a price of less than $5.00, other than securities registered on certain national securities exchanges or authorized for quotation on certain automated quotation systems, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. If we do not retain a listing on The NASDAQ Capital Market and if the price of our common stock is less than $5.00, our common stock will be deemed a penny stock. The penny stock rules require a broker-dealer, before a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document containing specified information. In addition, the penny stock rules require that before effecting any transaction in a penny stock not otherwise exempt from those rules, a broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive (i) the purchaser's written acknowledgment of the receipt of a risk disclosure statement; (ii) a written agreement to transactions involving penny stocks; and (iii) a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for our common stock, and therefore stockholders may have difficulty selling their shares

We do not intend to pay cash dividends.

We do not anticipate paying cash dividends on our common stock in the foreseeable future. We may not have sufficient funds to legally pay dividends. Even if funds are legally available to pay dividends, we may nevertheless decide in our sole discretion not to pay dividends. The declaration, payment and amount of any future dividends will be made at the discretion of the board of directors, and will depend upon, among other things, the results of our operations, cash flows and financial condition, operating and capital requirements, and other factors our board of directors may consider relevant. There is no assurance that we will pay any dividends in the future, and, if dividends are declared, there is no assurance with respect to the amount of any such dividend.

Our operating history and lack of profits could lead to wide fluctuations in our share price. The market price for our common shares is particularly volatile given our status as a relatively unknown company with a small and thinly traded public float.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. First, as noted above, our common shares are sporadically and thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our stockholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Secondly, we are a speculative or "risky" investment due to our limited operating history and lack of profits to date. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect that the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

Stockholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. However, the occurrence of these patterns or practices could increase the volatility of our share price.

Our profitability may be negatively impacted due to the fact that a substantial portion of our assets are comprised of securities that are not highly liquid.

A substantial portion of our assets, held by EastBridge Sub, are comprised of securities received as compensation for services rendered and are not highly liquid. There is presently no public market in the majority of the securities held

by EastBridge Sub, and it is uncertain if such securities will be listed on a securities exchange or if a market for such securities will ever develop. There is no assurance that an alternative exit strategy will be readily available to realize the fair value of such securities. Accordingly, we are prepared to bear the economic risk of such securities for an indefinite period of time.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

All unregistered sales and issuances of equity securities for the three months ended September 30, 2014 were previously disclosed in a Form 8-K or Form 10-Q filed with the SEC.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits

Exhibit Number	Description
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Financial Officer.
32	Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CELLULAR BIOMEDICINE GROUP, INC.
(Registrant)

Date: November 19, 2014	By:	/s/ Wei (William) Cao Wei (William) Cao Chief Executive Officer (Principal Executive Officer)
	By:	/s/ Bizuo (Tony) Liu Bizuo (Tony) Liu Chief Financial Officer (Principal Financial and Accounting Officer)